PROACTIVE STAKEHOLDER MANAGEMENT: A DESCRIPTIVE AND

INSTRUMENTAL ANALYSIS

by

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ABSTRACT OF THE DISSERTATION

Proactive Stakeholder Management: A Descriptive and Instrumental Analysis

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Professor Charles Heckscher

In the last few decades, an important theme in organizational theory has been the increased organizational vulnerability as they operate in an intrusive environment. No matter how theorists and scholars try to solve the issue of environmental interference, there is unanimity in the belief that organizations are now influenced by an increasing number of entities, and therefore, firms need to accommodate specific demands of these several groups. This extra burden on the resources of individual organizations, in an ever-changing environment, necessitates the need for these firms to have coalitions in order to survive, and the need to engage in multifaceted and intricate 'transactions' within their environment.

The overall argument of the study is that business organizations need to have a proactive stakeholder orientation to create structures and mechanisms that will lead to consensus building and mutual benefits for organizations and their stakeholders. The study also explores four research questions: Who are proactive stakeholder organizations? What are the dynamics of stakeholder management? How are stakeholder organizations created and perpetuated? And what are the strategic benefits of stakeholder management?

The study is a qualitative inductive study that utilizes the precepts and techniques of grounded theory development and case study methodologies. The data in the study is based on 52 in-depth interviews, observations and field notes accumulated through site visits, organizational documents like annual reports, employee manuals, and policy manuals etc., organizational websites, and newspaper and journal articles.

The study finds that: proactive stakeholder management is a viable business strategy; stakeholder organizations are engineered through people management policies; organizational culture and trust between the organization and its stakeholders plays crucial role in creating proactive stakeholder organizations; organizational stakeholders are recognized based on both dynamic and fixed features; conflict resolution in proactive stakeholder organizations is based on a balanced approach; and there is a dynamic relationship between value based business and entrepreneurship.

The study contributes to research on proactive stakeholder management by studying the stakeholder phenomenon as a whole in its social context.

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In the completion of this dissertation I am deeply indebted to my chair, Professor Charles Heckscher. This work was inspired by my early discussions with Prof. Heckscher on workplace democracy and stakeholder management. Since then my continued discussions with Prof. Heckscher have been an invaluable tool for developing greater conceptual clarity. Prof. Heckscher has been an unwavering source of professional and academic advice. Under his guidance I have learned principles of vigorous research. He has motivated me by encouraging intellectual freedom, yet he also, in subtle ways, kept me on track. This work would not have been possible without Prof. Heckscher's continued support, encouragement, patience, and personal kindness. Thank you very much.

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I would have never joined a PhD program if it were not for the encouragement of my mentors at the University of Rhode Island. I thank Professors Richard Scholl, Matthew Bodah, and Richard McIntyre for their support, and guidance.

Finally, I would like to thank my family for its constant support and love.

New Brunswick, New Jersey, August 20, 2011

Dedication

For

My Parents

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Introduction

In the last few decades, a major theme of organizational theory has been the increased openness of the environment in which organizations operate. No matter how theorists and scholars try to answer the question of openness there is unanimity in the belief that organizations are now influenced by an increasing number of entities, and need to accommodate their specific demands (Freeman, 1984; and Harrison & St. Caron, 1996). This extra burden on organizational resources, in an ever-changing environment, necessitates the need for businesses to have coalitions (Gary, 1989), and engage in multifaceted and intricate 'transactions' within their environment (Selznik, 1996).

The bottom line is that modern organizations are now facing a dynamic and an 'active intrusive environment' (Dill, 1975). The new groups and entities, created by technology and several other conditions under globalization, are interested in what the firms do and how they conduct their business. These entities are not only affected by the firms but they can also influence firms. These changes, therefore, have altered the view that organizations are only answerable to their shareholders (Freeman & Reed, 1983; Clarkson, 1995).

We argue that Proactive Stakeholder Management is one attempt to equip organizations to deal with the above mentioned turbulent and intrusive environment.

The main problem with Stakeholder Theory is that it is relatively new and, therefore, has several theoretical and conceptual problems. There are a number of ongoing debates regarding its efficacy, need, relevance, and status as a theory.

The theory has also raised controversies by challenging established business norms of shareholder value maximization, fiduciary responsibility, and established

organizational theories like agency theory, and transaction cost theory. It has, essentially, challenged the way we see firms and has provided a new lens to assess the role of business in society and standards of organizational success. Finally, like any theory at its initial evolutionary stage, stakeholder theory also lacks empirical research. There are enough models and theoretical concepts but very few have actually been tested empirically. In short, stakeholder theory is going through its teething pains. All of the above have made the stakeholder theory a contested concept among organizational scholars.

Even with all of the above concerns, some scholars believe that the "relevant question is not "if", but "how" stakeholder theory will meet the challenges of its success" (Agle & Mitchell, 2007). The present research was also initiated with the belief that stakeholder theory holds answers to a number of organizational dilemmas. It is only a matter of time and more research that the efficacy of the theory will be established.

This research looks at proactive stakeholder strategy in a systemic context. This essentially means that we want to understand stakeholder strategy as a phenomenon in its social context. Based on the overall purpose this work is very broad and covers a lot of ground.

It is divided into the following Chapters.

In Chapter 1 we discuss theoretical contributions to stakeholder theory with the intent to analyze, and elucidate the nature of the theory. As already mentioned stakeholder theory is in its developing stages and, therefore, is facing a number of theoretical and empirical challenges. The most challenging issue with stakeholder theory is the lack of assimilation between its three analytical categories—i.e. normative,

instrumental, and descriptive. In Chapter 1 we will attempt to discuss a wide range of theoretical scholarly contributions to understand the major debates involved in reconciling the analytical categories.

In Chapter 2, based on the discussion in Chapter 1, we will elaborate a *"Unified Proactive Stakeholder Model."* This model will form the basis of this work and it will also be an attempt to reconcile the normative, instrumental, and descriptive categories of stakeholder theory. In this model we will argue that it is not enough to be a mere stakeholder organization to cope with a dynamic and changing business environment but organizations now need to be proactively oriented to get the fullest benefits of the strategy.

In Chapter 3 we will discuss empirical studies conducted in the field. The main purpose of this chapter will be to discuss present research as it covers different aspects of our proactive model and identify research gaps. Once the research gaps are identified, at the end of Chapter 3, we will propound our overall research interests and research questions.

In Chapter 4 we will discuss the research design of this study. One of the contributions of this study is its research design. It is the first comprehensive qualitative multiple case studies in the field. Therefore, in Chapter 4 we will have a detailed discussion on the reasons for methodological choices in the present study. We will also have detailed discussions on: research setting; data collection; and data analysis. The main purpose of Chapter 4 will be to show the validity and thoroughness of the research procedures and protocols with the intent to establish the uniqueness and robustness of this work.

Chapter 5 is the first data based chapter of this work. In this chapter we will introduce six case studies and one supplementary case study. One important question that we will answer in this chapter is the reason for the selection of these particular case studies. Additionally, in this chapter we will briefly discuss the basic facts, histories, businesses and business trajectories, business philosophies of the management, stakeholder orientations, and relevant structures of the studied organizations. The main purpose will be to introduce the organizations and lay a sound foundation for further analysis.

In Chapter 6 we will represent the descriptive aspect of this work. In this chapter we will discuss the dynamics of proactive stakeholder strategy. We will demonstrate how proactive stakeholder strategy can be applied to achieve collaborative decision-making with organizational stakeholders to reach solutions that are widely acceptable. We will begin in this chapter by going over certain organizational features of our studied organizations to show what factors make these organizations proactive. Then we will discuss evidence that will clarify the process of stakeholder recognition by the managers and organizations. Finally, we will discuss the strategies these organizations apply to reconcile conflicting stakeholder and organizational interests.

In Chapter 7 we will attempt to answer the question of how proactive stakeholder organizations are created. This aspect of stakeholder theory is perhaps the least explored area. The main purpose of this chapter will be to walk through the mechanics of the creation and maintenance of stakeholder firms. For this purpose the chapter will be divided into three main sections: how are proactive organizational cultures initiated; how proactive stakeholder cultures are maintained and perpetuated; and what managerial

attitudes and behaviors need to be altered to establish proactive stakeholder organizations.

Chapter 8 will establish the instrumental validity of proactive stakeholder management. In this chapter we will discuss evidence that will show that proactive stakeholder management can be a viable business strategy with several long-term relational benefits that are translated into business advantages.

In Chapter 9 we will conclude the study. This chapter will be divided into the following sections: restatement of the research questions; brief discussion on the findings; brief discussion on the empirical, theoretical, and methodological contributions of this work; limitations of this study; and finally, a discussion on future research possibilities.

Chapter 1: A Theoretical Analysis of Stakeholder Theory

In this chapter we will examine theoretical scholarly contributions to stakeholder theory with the intent to discuss, analyze, and clarify the nature of the theory. But why do we want to assess stakeholder theory's nature? The most formidable challenge for stakeholder theory is the reconciliation of its three analytical categories—i.e. normative, descriptive, and instrumental. These three analytical categories cover a wide range of topics within the theory. Therefore, to reconcile these categories an expansive literature review is necessary to reveal to us the inherent issues with the theory and give us insights to reformulate it. The reformulation of stakeholder theory will eventually lead us to the development of our *'Unified Proactive Stakeholder Model,'* which will be elucidated in Chapter 2.

In the first section, we will briefly discussion the history of the term 'stakeholder' and discuss stakeholder literature in its three analytical categories. In the next section, we will delve into vital debates on stakeholder theory regarding its scope, importance, and theoretical issues. Lastly, we will re-examine stakeholder theory and establish its importance and resolve its theoretical issues.

The literature presented in this section is by no means exhaustive, but an attempt has been made to include major watersheds in the development of the theory illuminating its underlying character. The scholarly works are mostly presented in a chronological order with concluding discussions that analyze and interlink the writings.

Brief History & Two Seminal Works

The first definition of the word "stakeholder" was given in the Canadian Oxford dictionary (1708) as "a person who holds a stake or stakes in a bet" (Ramirez, 2000). In

the literal sense, the meaning of the term 'stakeholder' has not changed much. It is still used to signify groups and individuals who are attached with an organization based on the benefits or the harm that organization can bring them.

The use of stakeholder as a concept is not new; the theoretical use of the concept is found in Barnard (1938), and by system theorists March and Simon (1958) (Rowley, 1997)[1]. The term 'stakeholder' was coined in the 60s but the expression "constituencies", signifying the same thing, has existed much before that, placing the concept of stakeholder in the "age old philosophical discourse about the nature of society, governance and the distribution of wealth" (Scholl, 1981; Wheeler & Silanpaa, 1997). The first use of the term 'stakeholder' in an organizational context is attributed to Stanford Research Institute in 1963 (Freeman & Reed, 1983; Friedman & Miles, 2006). . The practical application also dates back to the 1930s & 40s, when General Electric Company identified four stakeholder groups -- i.e. shareholders, employees, customers, and general public (Friedman & Miles, 2006) and Johnson & Johnson used the concept to develop its business principles (Clarkson, 1995).

Freeman (1984)

The first important work in relation to the stakeholder theory is Edward Freeman's book *Strategic Management: A Stakeholder Approach* (Pitman Publishing Boston, 1984). We have already discussed that the stakeholder concept, though not the exact term, has been explored both in scholarly literature and organizational strategy well before the 1980s. The significance of Freeman's work lies in the fact that he is the first scholar to formulate a cohesive theory on stakeholder management (Rowley, 1997). The

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[1] For more detail read: March & Simon (1958), "*Organizations*", New York: Wiley; and Barnard, c. L. (1938), "*The Functions of Executives*", Cambridge, MA: Harvard University Press

book is written in the early 80s, a period of economic turmoil and turbulent changes. Therefore, Freeman argues that in a chaotic environment characterized by: stockholder activism, foreign competition, new developing cultural imperatives, politicized international supply of raw materials, consumer activism, expansion of government (federal and local) activities in business, and an increase in the special interest groups, there is a need for a new strategic approach to business management. Freeman further argues that the new model that can provide essential tools to managers in this changing environment is the 'Stakeholder Model'.

The stakeholder model (Figure 1.1) is a map that "takes into account all of those groups and individuals that can affect, or are affected by, the accomplishments of organizational purpose" (Freeman, 1984). Freeman believes that each of these stakeholders is necessary for the success of the organization and inversely they also have stakes in the organization. Freeman agrees that this depiction of the stakeholder model is simplistic and static. In reality the picture is further complicated as stakeholders have varying influences and roles that are subject to change with time, each stakeholder could be further divided into more categories, and finally, there can be interconnectedness between various stakeholders.

After presenting the model the rest of the book is actually a 'how to do' guide for managers to perform stakeholder management. The main purpose being that the managers should be able to assess the various stakeholder interests and then, based on those interests, they are able to formulate decisions that can enhance the economic viability of the organization.

One important aspect of Freeman's model, which he declares is also the "intellectual glue" of stakeholder theory, is the concept of 'voluntarism'. He argues that the stakeholder philosophy must be based on voluntarism as it is most appropriate for creating stakeholder concept and is also consistent with the American social fabric. He defines it as, "an organization must, on its own will undertake to satisfy its key stakeholders." He further elaborates that if stakeholder management is adopted due to the intervention of the state or the government then it would indicate failure on management's part.

Figure 1.1: Stakeholder View of the Firm (Freeman, 1984; page 25)
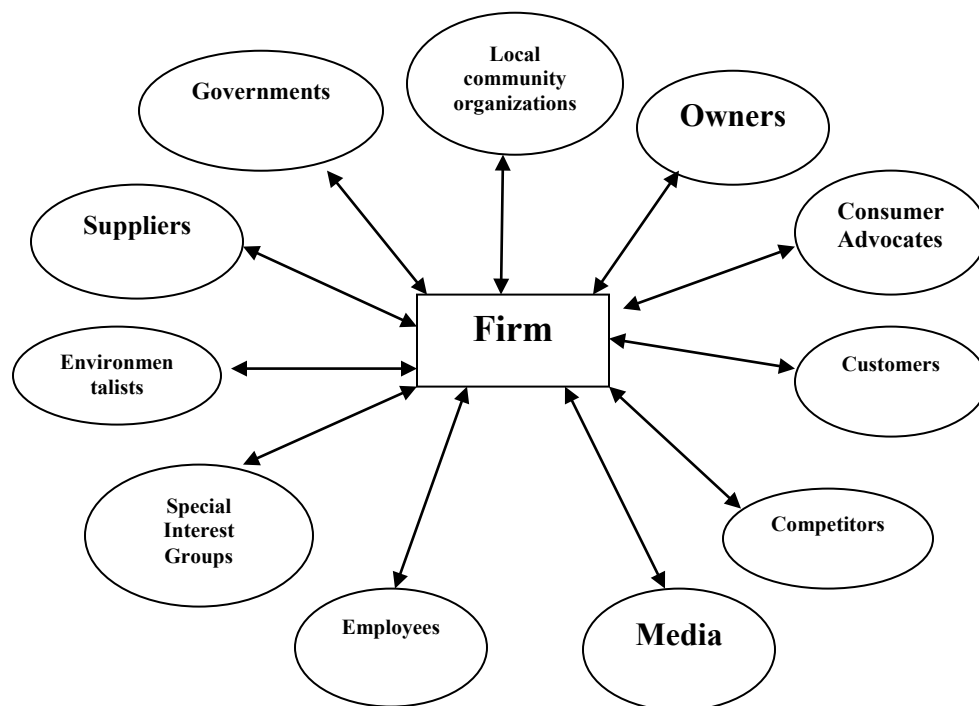
Freeman's work represents an early attempt at a unified stakeholder theory. There are, of course, issues with the theory and the model, for example: the broad definition of stakeholders, the static model that does not explain the dynamic aspect of the theory,

unclear system of preferences to various stakeholder interests and demands, and a simplistic view of an increasingly complex business environment. Most of these deficiencies are still topics of discussion among stakeholder scholars and will be discussed in the next section. However, the main contribution of the book is the acknowledgment that there are important constituencies other than shareholders, and the provision of tools to managers to assess the interests of organizational stakeholders and strategically deal with them.

Donald & Preston (1995)

The second important work on stakeholder theory is the Donaldson & Preston (1995) article in the *Academy of Management Review (Vol. 20, No. 1)*, titled "The Stakeholder Theory of Corporation: Concepts, Evidence, and Implications." To say that this work is the second important work does not mean that there was no development in stakeholder theory between 1984 and 1995. It also does not mean that the scholarly works during these eleven years were not important. But the importance of this particular article lies in the fact that this article enumerated three analytical categories -- i.e. normative, instrumental, and descriptive, to analyze stakeholder theory. Since this article, these categories have been used by scholars to describe how they see stakeholder theory and where they think stakeholder theory can contribute. Not only this, the works done between 1984 and 1995 can also be categorized based on these theoretical groupings.

The scholars argue that the stakeholder model holds that "all persons or groups with legitimate interests participating in an enterprise do so to obtain benefits and there is no prima facie priority of one set of interests and benefits over another." Donaldson and Preston suggest that "the stakeholder theory has been advanced and justified in the

management literature on the basis of its descriptive accuracy, instrumental power, and normative validity" (Friedman & Miles, 2006). They argue that the stakeholder is descriptive as it is "used to describe: the nature of the firm, the way managers think about managing, and how board members think about the interests of the corporate constituencies," it is instrumental theory as it is used to "identify the connections, and lack of connections, between stakeholder management and the achievement of traditional corporate objectives (e.g. profitability, growth)." Finally, as a normative theory it is "used to interpret the function of the corporation and identification of moral or philosophical guidelines for the operation and management of corporations." Though Donaldson & Preston gave four categories -- i.e. the above three and managerial-- but in most of the cases "managerial" is merged in the instrumental and most scholars divide the theory in the first three categories.

The authors argue that the three aspects of the stakeholder theory are vital as they explain its important dimensions, and combine diverse theoretical approaches to make it comprehensive. In their view the three aspects are 'nested' within each other (Figure 1.2). The outer shell of descriptive theory is supported by the "instrumental predictive value" at the next inner level. Finally, "the descriptive accuracy of the theory presumes the truth of the core normative conception, in so far as it presumes that managers and other agents act as if all stakeholders' interest have intrinsic value. In turn, recognition of these ultimate moral values and obligations gives stakeholder management its fundamental normative base." Here they agree with Kantian reconceptualization of the firm given by Freeman and Evans (1988), which argues that stakeholders have rights and these rights are to be treated as an end in itself, and not as means to other ends.

Figure 1.2: Three Aspects of Stakeholder Theory (Donaldson & Preston, 1995; page 74)

Instrumental

Normative
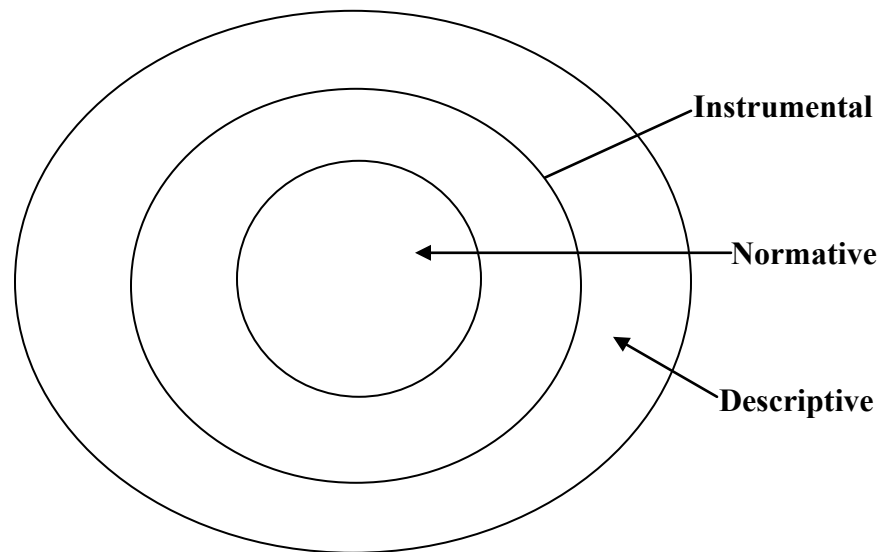
Descriptive

In sum, Donaldson & Preston see stakeholder theory as explaining organizations at three levels -- i.e. normative, instrumental, and descriptive. They argue that these levels are interconnected and give stakeholder theory the vitality that it requires to sustain a dynamic theory in a dynamic environment.

Stakeholder Analytical Categories

The above discussed analytical categories have become the basis of stakeholder theory analysis. Therefore, the literature review is also divided into normative, instrumental, and descriptive explanations of stakeholder theory. It would be pertinent to point out that the first section will only contain the normative aspect of stakeholder theory, while the instrumental and descriptive aspects will be combined in one section.. The reason for this format is that the descriptive and the instrumental aspects of stakeholder theory are considered practical applications of the theory; therefore, many scholars while giving their models discuss them together.. It would also be germane to

point out that the scholarly works discussed below do not always fall in any one particular category and, therefore, there is frequent overlap.

Normative Stakeholder Theory

The normative aspect of stakeholder theory is considered, by many scholars, as the heart of the theory. A substantial amount of work done on stakeholder theory revolves around its normative underpinnings. We have seen from the above discussed important works, especially Donaldson & Preston (1995), that the normative aspect is considered as the core of stakeholder theory. Though an important aspect and often considered as the basis of the theory, it has also been a great source of controversy. In this section, we will discuss how scholars define and explain the normative stakeholder theory, and its ensuing controversies.

In Freeman & Reed (1983) and Freeman (1984) the scholars argue that the firm is responsible to groups other than the stockholders. The scholars argue that the normative aspect is based on the emphasis on corporate democracy and the need to satisfy the demands of various stakeholders. But this aim is restricted by the relative importance of the stakeholders, as Freeman (1984) instructs the managers to reduce their list of stakeholders by eliminating unimportant, weak, or insignificant stakeholders. Primarily these works provide a hands-on guide for managers to satisfy important stakeholder and to create a more viable firm (Walsh, 2005).

Barbara Gary (1989) discusses a collaborative approach. The approach is based on the need that a representative sample of stakeholders should be assembled to work out an agreement that is acceptable to all. The main objective of the collaborative approach is resolving conflict, advancing shared vision, and advancing collective good of the

stakeholders involved. Collaboration envisages the sharing of power between the organizations and the stakeholders. Collaboration is conceptualized as the emergence of a new negotiated order among a set of stakeholders, a social context in which relationships are negotiated and renegotiated.

Freeman & Evans (1990) further develop the concept of 'voluntarism." They discuss Williamson's theory of transaction cost and the need for contractual safeguards. They conclude that a firm must be conceptualized as having multi-lateral contracts. As for the safeguards for contracting parties, they argue that instead of 'exogenous' safeguards -where the cost of the contract is borne by parties outside the contract -- i.e. by the society through the coercive power of the state- the safeguards must be 'endogenous' – where the cost of the contract is borne by the parties to the contract. Furthermore, these safeguards should be based on the Rawlsian concept of "fair contract" and "veil of ignorance," in which one person cuts the cake and then chooses last.

Goodpaster (1991) argues that stakeholder theory is understood either in strategic or in multi-fiduciary terms. The strategic view in essence means that stakeholders are not to be ignored but managers are responsible in a fiduciary sense only to the stockholders. On the other hand, the multi-fiduciary view declares that the managers have fiduciary responsibilities to all stakeholders. According to Goodpaster, these two aspects lead to the 'stakeholder paradox' as "it seems essential, yet in some ways illegitimate, to orient corporate decisions by ethical values that go beyond strategic stakeholder considerations to multi-fiduciary ones." To solve this paradox he gives his 'New Stakeholder Synthesis', which means that taking business ethics seriously does not mean that managers have multi-fiduciary responsibilities to third parties, but it means that they have non-fiduciary

responsibilities to them. To sum up, Goodpaster wants to treat moral and instrumental aspects of the stakeholder theory separately as opposed to Freeman (1984) and Donaldson & Preston (1995).

Langtry (1994) takes his cue from Goodpaster (1991). He critiques Freeman's (1984), and the Evans & Freeman's (1988) emphasis on Kantian thought that states that persons should not be treated as means to an end. He argues that normative stakeholder theory based on this principle "offers a controversial revisionary account of the nature and ends of the firm and the moral claims to which it is subject." He distinguishes between three ethical theories -- i.e. the Minimalist Stockholder Theory (firms only responsible to the shareholders); Non-Minimalist Pure Stockholder Theory (same as the first one but with legal constraints on the firm); and Tinged Stockholder Theories (firms should be run to maximize the interests of stockholders with not only legal but also moral and social obligations in view). He supports the Tinged Stockholder Theory, which puts emphasis on serving the shareholders but by fulfilling non-fiduciary moral obligations on the firm.

Freeman (1994) does not agree with Goodpaster that moral obligations and fiduciary obligations-- i.e. ethics and business, are two separate concepts. He argues that this separation is ingrained in the ethics and business literature and that stakeholder theory aims at removing this gap. Freeman agrees with Donaldson & Preston (1995) and suggests that stakeholder theory can be "unpacked into a number of stakeholder theories, each of which has a normative core inextricably linked to the way that corporations should be governed and the way that management should act." Stakeholder theory thus is

a genre of stories about how we could live. The normative cores can be different like ecological standpoint, feminist view, or doctrine of fair contract.

Wicks, Gilbert, & Freeman (1994) argue that the stakeholder theory is a new concept and most of the metaphors used to explain and understand it are 'masculine'. They suggest a feminist reinterpretation of stakeholder theory based on ideas of environmental change, of replacing conflict with communication and collective action, and replacing hierarchy with decentralization. They believe that these concepts would better help us express the changing functions of the firm and improve our understanding of the stakeholder theory.

Donaldson & Preston (1995), as already discussed give us a stakeholder theory that is instrumental, descriptive, and normative. Each sphere is interlinked with the normative aspect as the core. Phillips (1997) begins with Freeman's definition of stakeholders - anybody that (a) can affect and (b) is affected by the firm - and argues that the first part is clear but the second part makes almost everybody a stakeholder. Therefore, he gives his definition of stakeholder based on the concept of "fairness," which means that "whenever persons or group of persons voluntarily accept the benefits of a mutually beneficial scheme of cooperation requiring sacrifice or contribution on the parts of the participants" obligations of fairness are created.

Hasnas (1998) favors the deontological stockholder argument, which says that stockholders invest on the condition that their capital will be used in accordance to their wishes of the investors. If the money is used by the managers for social purposes without the authorization of the stockholders then it is spending other people's money without their consent. He argues that this is also a normative theory of business based on the

norm of 'contract' with the stockholders, and that stakeholder theory violates the contract between stockholders and managers.

Palmer (1999) takes on Hasnas' deontological argument and argues that if the managerial purpose is only to increase profits for the stockholders then there can be situations in which they might do things that are legal and honest, but are also unethical. He further argues that when we say that managers have responsibilities to stockholders, it is wrong to assume that this means they have no responsibilities to stakeholders. Finally, he gives his own deontological theory that favors stakeholder theory -- i.e. Ross-style pluralism. This pluralism underwrites shareholder theory by creating two types of responsibilities -- i.e. prima facie (stockholders) and general obligations (stakeholder).

Hendry (2001) goes over a number of normative stakeholder theories and concludes that the stakeholder theorists have not been able to give the theory a coherent normative argument. The theorists, according to Hendry, have not been able to develop a viable alternative to the shareholder view. Hendry divides the normative theories into three types: developing a just society (the ethical ideal of a just society is the driving principle): changing laws in the US so that managers and firms can be more responsible; inducing managers to take into account the interests of all stakeholders while managing their firms. Hendry also differentiates between three levels of claim in the above mentioned three categories: interests of all stakeholders are intrinsic, each stakeholder merits consideration not merely on the basis that it can further the interests of shareholders (modest); managers have fiduciary responsibility to the stakeholders (demanding); decision-making should have the input of all affected stakeholders

(intermediate). Finally, he recommends that the intermediate claims should only be the basis of public policy debate.

Van Buren (2001) links the principle of fairness and stakeholder theory with the help of Integrated Social Contract Theory (ISCT). He discusses the argument given by Phillips (1997) that makes fairness the basis to identify and treat stakeholders. He suggests that a "reconstructed principle of fairness can be combined with the idea of consent as outlined in ISCT to bring about a more normative stakeholder theory that also has ramifications for corporate governance." Van Buren explains ISCT, he states that there are two levels of social contract: macro social contract: and myriad extent local social contracts. The private local social contracts will be consistent with the macro level or community level hyper-norms. Therefore, local social contracts should be accepted by giving consent to them, if they are consistent with the hyper-norms and the macro social contracts.

Freeman & Phillips (2002) draw parallels between stakeholder theory and libertarian argument. They explain that an argument is libertarian if it (1) relies on liberty, freedom, and the equal liberty principle (2) relies on basic negative rights, such as those defined by Rawl's principle, including private property rights (3) allows for the creation of positive obligation through various voluntary actions (4) relies on a minimal state (5) and assumes humans are largely responsible for the effects of their actions. They argue that the enumerated five principles are also germane to stakeholder theory. Based on this affinity, the authors develop the concept of 'libertarian-stakeholder capitalism', which is based on the principles of: stakeholder cooperation; stakeholder responsibility;

complexity of various claims; continuous creation of value; and emergent competition in a free society.

Phillips, Freeman, & Wicks (2003) discuss what stakeholder theory is and what it is not. Basically, they stress that the theory is primarily: a moral theory; a management theory based on resource dependence; and a theory creating an obligation for firms to cater to the interests of stakeholders rather than becoming a prudential or an instrumental institution of wealth maximization.

Rodin (2005) starts with the fact that there has been a tremendous increase in the resources and influence of business organizations. This dominance of the firms has spurred the view that there is a need for corporate social responsibility (CSR), and that organizations should be held accountable for their acts. Rodin draws a distinction between minimal and maximal moral obligations. Minimal obligation, according to Rodin, stems from human rights and justice. These set up the basic standards of human decency. Maximal obligations are moral considerations, including positive duties of aid, charity, and beneficence based on moral ideals. Maximal obligations are less stringent than minimal obligations.

Rodin concludes that minimal obligations apply equally to firms as they do to owners. Both parties cannot escape this obligation by pointing at their agents or at the interests of the principals, respectively. But in case of the maximal obligations the agent cannot fulfill them on behalf of, and at the expense of, the owners -- i.e. by using their resources. Rodin argues that the shareholder value theory is subject to a thin set of minimal standards. In contrast, the stakeholder theory gives prime importance to maximal obligations. It stresses on the duties of the managers, ignores the special rights of the

owners to get profit from the organization, and makes the managers responsible for actions on maximal obligations on the behalf of, and with the resources of, the owners. Finally, he gives his 'ownership model', which gives a middle ground by putting the maximal obligations fully on the owners, but with limits on the managers. On the other hand, the ownership model envisages full responsibility of minimal obligations on both owners and managers.

The above discussion provides us with a number of aspects of the normative stakeholder theory. The important task now is to put all of the above views in some perspective. We can see from the above discussion that scholars have varying and often opposing views regarding normative stakeholder theory. Some argue that stakeholder theory must have a strategic -- i.e. importance of firm's viability -- feature. But, at the same time, it should have a normative core. These scholars also favor 'voluntarism', 'Rawlism', and 'Kantianism' in order to develop a just society (Freeman & Reed, 1983; Freeman, 1984; Freeman & Evans, 1990; Freeman, 1994; Freeman & Phillips, 1997; & Phillips, Freeman, & Wicks, 2003).

Others have argued that normative is important but it needs to be separated from the fiduciary responsibility of the managers. These scholars are trying to find a middle ground between an absolute shareholder view *a la* Milton Freidman and a normative stakeholder theory (Goodpaster, 1991; Langtry, 1994; Palmer, 1999; & Rodin, 2005).

Additionally, some say that stakeholder theory and its normative core aims at a just society based on the principles of fairness (Phillips, 1997; Van Buren III, 2001). Finally, it has also been argued that stakeholder theory should be seen as a collaborative system that aims at consensus and conflict resolution (Gary, 1989); some support this

argument by advocating the use of feminist metaphors in stakeholder theory (Wicks, Gilbert, & Freeman, 1994).

The above discussed views do not make the task of understanding normative stakeholder theory easy. There are many opposing views, which are discussed in detail in the section that goes into the theoretical controversies of stakeholder theory. However, for the purpose of this section, Table 1.1 (a little less complicated than Friedman *et al* (2007) but basically having the same divisions) differentiates between various normative views based on the: strategic view; normative (just society and separation of ethics and business) view; and balanced collaborative approach.

Stakeholder Normative Typology (Table 1.1)

Strategic/Firm Centric/Managerial Decision-Making/Normative Core		**Freeman & Reed (1983)** **Freeman (1984)** **Donaldson & Preston (1995)**
Normative	**Normative as a Core/ Just Society**	**Freeman & Evans (1990)** Rawlsian Fair Contract **Freeman (1994)** Normative Multiple Cores **Wicks, Gilbert & Freeman (1994)** Feminist Stakeholder Norms **Phillips (1997)** Fair Contract **Van Buren (2001)** Integrated Social Contract Theory **Freeman & Phillips (2002)** Libertarian View
	Separation of Ethics & Business/Non Fiduciary Responsibility	**Goodpaster (1991)** Separation of Fiduciary and Non-Fiduciary responsibility **Langtry (1994)** Tinged Stockholder Theory **Hasnas (1998)** Deontological Argument **Palmer (1999)** Ross-Style Pluralism **Rodin (2005)** Minimal v. Maximal Moral Obligations
Balanced Approach/Collaborative Decision-Making/Strategic (Important Stakeholders and Firm Viability important)		**Gary (1989)** Collaborative Approach **Hendry (2001)** Intermediate Claims **Wicks, Gilbert, & Freeman (1994)**

Instrumental and Descriptive Stakeholder Theory

As already explained descriptive stakeholder theory tries to describe the firm as a center of many converging and diverging interests representing numerous stakeholders. Descriptive theory also tries to show the impact of stakeholders on organizational decision-making. In short, it explains how organizational decisions are made and what

affects them. On the other hand, instrumental stakeholder theory attempts to explain and establish a link between stakeholder management and firm performance.

The following discussion of scholarly works will contain works that explain descriptive or instrumental aspects of the stakeholder and will also contain models that try to explain the behavior of managers, firms, and stakeholders. It must be pointed out here that many of the works have both instrumental and descriptive features, which will be indicated as we go along. The literature is divided into: firm management; public issues resolution; and integration of stakeholder theory with other management theories, and theories from other disciplines.

Firm Management

Dill (1975) gives a broader concept of stakeholder management than the corporatist view, and covers both descriptive and instrumental aspects of the stakeholder theory. He argues that management must increase focus on strategic planning and, through 'kibitzing', bring stakeholders into the process of decision-making. Otherwise, the organization will be subject to increasing mistrust and loss of confidence. Dill not only talks about stakeholders that can influence the organizational decision-making processes but also mentions intermediaries like representative protestors, communicators, and opportunistic protestors, who intervene on behalf of the stakeholders, and aid them. He recommends that the management needs to deal with stakeholders by increasing the scope of their interactions and by making an effort to help the stakeholders understand the concerns and issues of the organization.

Freeman (1984) defined stakeholders as any entity that is affected or can affect the firm. He gives a long list of stakeholders and their possible interests. Freeman

admitted that the list provided in his book is static and simplistic. In reality stakeholders have relations with other stakeholders, their interests change, and over time their salience can also vary. His model was basically a 'how to do' guide for managers to assess the stakeholders' interests, and formulate processes that will help them in dealing with these interests. Freeman's model is instrumental and represents an 'enlightened self interest' on the part of the managers aimed at creating a successful organization (Jones, 1995).

Savage *et al* (1991) state the importance of stakeholders in today's business environment. They believe in the increasing importance of stakeholders because: stakeholders have become more knowledgeable of their surroundings and of organizations; interdependence between stakeholders and the organizations has increased; and stakeholders have greater ability to be intrude in organizational operations. Therefore, it has become imperative to take stock of the external stakeholders of the firm. They divide stakeholders into two categories i.e. primary (contractual relationship) and secondary (affected by or have influence over the firm) stakeholders. Both categories can affect the organization, and stakeholders in both categories can also move between categories. The authors state that there are two essential features that are required to recognize stakeholders: the potential of threat to the organization; and the potential of cooperation. Based on these two features they propose a generic model: Collaborate (high threat; high cooperation); Defend (high threat; low cooperation); Involve (low threat; high cooperation); monitor (low threat; low cooperation).

Kotter & Heskett (1992) link culture, stakeholder view, and firm performance. The book is a study that proves that adaptive organizational cultures, in which managers provide the leadership to initiate change in firm strategies and tactics to satisfy the

legitimate interests of stakeholders, lead to higher firm performance. The study considers three stakeholders i.e. stockholders, employees, and customers, and shows the importance of stakeholder satisfaction for organizational performance. The main emphasis is on the creation of adaptive culture that caters to the legitimate interests of stakeholders.

Hosseini & Brenner (1992) describe organizations as having influence from a number of stakeholders, and give a descriptive stakeholder theory that focuses on stakeholder influence. Most of the scholarly works claim this aspect of multiple pressures on the decision-making process of the managers, but Hosseini & Brenner actually give a methodology to ascertain these pressures created by the stakeholders. They give a methodology to assess how ethical values are introduced, and subsequently influence managerial decision-making. They propose an Analytical Hierarchy Process (AHP), which they propose is a solution to the multi-attribute and multi-dimensional problem posed by stakeholder theory.

Donaldson and Preston (1995), as already discussed, give an instrumental, descriptive, and normative stakeholder theory. They move beyond Freeman's enlightened self interest view and say that all stakeholders have interests with intrinsic value and are important irrespective of the fact that they add to the value created for the shareholders. Their work is normative as they consider norms to be at the core of the organization. It is descriptive as they describe organizations as centers of multiple interests. It is instrumental as they consider that there should be a link between stakeholder theory and performance.

Jones (1995) develops a formal instrumental stakeholder theory. The main assumptions are: firms have relationships with many groups, each with either power over

the firm, or with a stake in the firm; relationships between firms and their stakeholders can be described with the term 'contracts'; contracts can be of many types(forms of exchange, transaction, delegation of decision-making authority, and legal documents); firms are nexuses of contracts; top corporate management has a special strategic position, therefore, firms are recast as nexuses of contracts between its top managers and its stakeholders; finally, markets move towards equilibrium and that produces a tendency for efficient contracting.

Based on the above assumptions the contracting process gives rise to a number of issues like: agency problems, transaction cost problems, and problems related to opportunism and commitment. If the firm is able to solve these contracting issues it will have a competitive advantage. Finally, Jones gives his solution that "firms that contract (through their managers) with their stakeholders on the basis of mutual trust and cooperation will have a competitive advantage over firms that do not".

Harrison & St. Caron (1996) argue that there is a need for firms to develop proactive partnership techniques not only to increase control in the face of environmental uncertainty, but also to create organizational flexibility. Mitchell *et al* (1997) based on three important features of power, legitimacy, and urgency, develop seven categories of stakeholders, which are: Dormant (Power), Discretionary (Legitimacy), Demanding (Urgency), Dominant (Legitimacy and Power), Dependent (Legitimacy and Urgency), Dangerous (Power and Urgency), and Definitive (Power, Legitimacy, and Urgency). The position of the managers is unique in this model; they are the moderators of relationships between the firms and its various stakeholders. The model presented by Mitchell *et al* is descriptive as it gives a theory of stakeholder salience and explains the conditions under

which managers need to consider certain groups as stakeholders and how to prioritize them.

Wheeler & Silanpaa (1997) argue that "long term value of a company rests on: knowledge, ability, and commitment of its employees; and its relationship with investors, customers, and other stakeholders." The basis of this relationship is how the company adds value beyond commercial transactions. There are two types of values an organization can produce: social and commercial. Both these values are mutually reinforcing and lead to loyalty and corporate resilience. The scholars follow Freeman's (1984) definition of stakeholders and divide stakeholders into primary and secondary. They argue that basically stakeholder management is a question of creating a balance, and they predict that stakeholder inclusive organizations will outperform stakeholder exclusive organizations in the 21st century.

Preston & Donaldson (1999) did not really give a detailed model but they described the basic ingredients of stakeholder theory. They state that the stakeholder view includes firms and their networks of stakeholders, involved in collaborative relationships and routines, to increase firm revenue and reduce risk and cost. The collaboration works through stakeholder linkages and implicit agreements based on trust, mutual control, and ownership of collaborative activities by the firm and the stakeholders. Finally, "organizational wealth-that is the aggregate value of a going concern-can be enhanced by appropriate linkages, both formal and informal, with most, if not all, corporate stakeholders. Hence the pursuit of organizational wealth is an appropriate goal and justification of stakeholder management."

Maren & Wicks (1999) argue that there is no conflict between managerial fiduciary responsibility to the shareholders and the normative aspect of the stakeholder theory. The 'stakeholder paradox', which means that not all ethical behaviors are defensible in a court of law is largely false as managers are not legally forced to choose between the legal propriety envisaged by fiduciary responsibility and stakeholder ethics. The authors argue that the courts uphold that shareholders cannot interfere with managerial decisions that can be plausibly justified as increasing business performance. The acts of generosity on the part of the managers are upheld, by the courts, based on rational business purposes of increasing business benefits. Therefore, stakeholder theory, according to the authors, is not an antithesis of Freidman's shareholder theory. It only describes the organization in a more realistic way -- i.e. center of many pressures and interests, and gives suggestions to deal with this situation.

Jawahar & McLaughlin (2001) discuss and develop a descriptive stakeholder theory. They want to take a long-term view of organizations. They ask the questions about how organizations deal with stakeholder demands at different stages of their development from the initial stage of formation to growth, maturity, and decline or revival. They state that there has been little work done on descriptive stakeholder theory, especially the aspects dealing with the impact of stakeholders over the decision-making of an organization. They, therefore, give their own descriptive stakeholder theory and argue that at any given organizational cycle certain stakeholders will be more important to the organization based on their ability to satisfy the needs of the firm. The importance of these stakeholders will vary over the business cycles of the firm and the strategy the organization will adopt to deal with them will depend upon the importance of that

stakeholder relative to the importance of other stakeholders. Finally, the importance of stakeholders will also depend upon the resource dependence of the firm on any particular stakeholder.

Post *et al* (2002) see the need to redefine the firm because of their increased influence and power in the economy, and based on the fact that shareholders now do not, in the real sense, control the firms that they otherwise invest in and own. Business enterprises face pressures from myriad groups. Therefore, they now work for multiple interests and constituents. Post *et al* believe that the main function of the firm is to create wealth, which can be created and destroyed through relationships with stakeholders. Therefore, it is necessary to manage stakeholder relations. Their stakeholder model shows that benefits of stakeholder management flow from both sides. There are linkages between stakeholders and the firm and also between different stakeholders. They do not include competitors as stakeholders as they might be hurt with the increased capacity of the firm.

The model, like Freeman's model, is primarily based on assessment and decision-making by the managers. One important feature of the model is the 'license to operate'. The license or charter to operate is given by the community to the firm to operate in the community. The relationship is based on the firm's positive relationship with the community. Post *et al* consider 'license to operate' as important as real tangible assets.

Jensen (2002) clarifies the relationship between stakeholder theory and value maximization. He calls his theory the "enlightened value maximization" theory. The theory stresses on the use of stakeholder concept to deal with stakeholder interests in the long-run basis. Short-term efforts at value maximization lead to value destruction. This

theory also simplifies the problem created by the stakeholder theory in terms of multiple objectives of the firm or dilution of the main objective-- i.e. creating shareholder value-- of the firm The problem is solved by making the single objective of the firm as the creation of the long-term value for the firm, which is achieved by giving consideration to the stakeholder interests.

Integration with other Management Theories

Pfeffer & Salancik (1978) give a resource dependence perspective of the firm. They argue that firms need to have resources to operate. These resources are many times held by other actors in the environment. This creates uncertainty for the firm as it gives power to actors that have resources required by the firm. Therefore, the firms, in order to operate and survive, cope with its environment and "negotiate exchanges to ensure the continuation of needed resources." This is primarily, an instrumental argument that links resources dependency, actors who have these needed resources -- i.e. stakeholders--, with the firm's survival. But this can also be interpreted as a descriptive theory as resource dependence envisages the impact of stakeholders or in this case actors that hold important resources on the firm's decision-making.

McNeil (1980) does not give a stakeholder model but discusses the importance and need for relational contracts instead of discrete contracts. He argues that today there are no principals. There are only agents and relationships between agents. He argues that because of the increasing number of constituencies the need is not for a discrete law but a law that tries to harmonize relationships between various actors. According to MacNeil, employment law has been discrete and has been based on the principles of bargaining and

consent. He further argues that the need in this multi-constituency environment is to have relational contracts that bring in societal norms of fair dealing.

Hill and Jones (1992) combine stakeholder theory with agency theory. Agency theory has primarily been concerned with the relationship between the managers and the stockholders. The scholars argue that an unexplored area is the ability of the theory to explain the explicit and implicit contractual relations between firms' various stakeholders. Hill & Jones propound the agency-stakeholder theory that like agency theory suggests that the firm is the center of contracts between different resource holders. But unlike the agency theory this theory takes into account all contractual relationships between all stakeholders.

The scholars assume that there is a difference of power between the parties to a contract. This difference in power leads to friction between these parties and eventually to permanent disequilibrium in the market. They argue that the disequilibrium can be avoided if the interests of the firms and their stakeholders are aligned through certain mechanisms and certain power games. But these power games do not always increase efficiency. Finally, they argue that decision-making should take into account the interests of important stakeholders who have contributed critical resources to the firm. The theory gives a unique position to the managers who have the decision making power and are at the same time stakeholders of the firm and agents of other stakeholders as they are also supposed to look after their interests.

Clarkson (1995) argues that corporate social responsibility (CSP) can be better understood under the framework of stakeholder theory as opposed to using the framework of corporate social responsibility (CSR1), and corporate social responsiveness

(CSR2). Clarkson argues that CSR 1 & 2 have definitional problems. He conducts research and focuses on the relationship of a corporation's management with its stakeholder groups. The data shows that in the normal running of the business the managers do not think in terms of CSP, but do think in terms of their important stakeholders and the relationship of the firm with them.

Rowley's (1997) applied the "network model" to stakeholder theory. The purpose of the article is to understand the stakeholder environment and how it affects the organization. The author believes that, "stakeholder relations do not happen or take place in a vacuum of dyadic ties." Each organization has its stakeholders; these stakeholders have ties with the focal organization and also within themselves. In such a network firms should operate based on their centrality in the network and the density of the network. Based on the above mentioned concepts, the firm responds to stakeholder pressures in a network setup in four ways: compromise (high density, high centrality), commander (low density, high centrality), subordinate (high density, low centrality), and solitarian (low density, low centrality). When the network density is high, this would mean that the stakeholders of the focal firm can put greater restraints on its decisions. More central firms can resist pressure from the stakeholders, but less central firms in dense network will have to yield to pressure.

Public Policy

Van de Ven (1980) does a longitudinal study to compare the results of Program Planning Model with the conventional planning model in creating child care programs in Texas. The results of the study show that the PPM programs that were based on greater

involvement of community stakeholders in the process of planning and implementation were more successful and more acceptable to the related communities.

Altman & Petkus (1994) give a conceptual framework of policy formulation in environmental issues with the involvement of stakeholders. The authors believe that there is a gap between the government policy makers and receptiveness of non-governmental stakeholders. A stakeholder-based public policy process is suggested to overcome the diversity of interests in environmental issues. The concept of "social marketing" is used to facilitate decision making based on stakeholder involvement. They define social marketing as "the design, implementation, and control of programs seeking to increase the acceptability of a social idea, cause, or practice, in a target group(s)." Basically, social marketing is a one way communication to the stakeholders by the government to create understanding of the interests of all stakeholders and gather support for the proposed solutions.

Ramirez (2000) assesses the use of stakeholder analysis for natural resource management issues in rural communities. The author considers stakeholder analysis as a tool of setting matrices for identifying stakeholders and their interests. One interesting point, linking Ramirez' analysis to Rowley (1997), is that in the framework of stakeholder relations the stakeholders can increase their power by increasing the density of the network. The process is collaborative in which methods of conflict resolution and negotiations are decided between the stakeholders. The process of negotiation and dispute resolution is based on the assessment and expression of 'interests' and not 'positions'. There are two central ideas involved in this model: 'voice' for all concerned; and 'procedural justice'.

Summary

Going through so many concepts, models, explanations, and descriptions, can be perplexing. One way to clear the confusion is to assess these scholarly works as they have been discussed i.e. under the categories of firm-centric, and integration with other theories, and public policy (Table 1.2).

But as we go through all of the above scholarly works we will realize that there are dimensions or nuances of the stakeholder theory that are not entirely represented by either the way these readings are discussed or by the visual representation in Table 1.2. We can also look at these readings from the perspective of an organization-stakeholder continuum-as utilized by Friedman & Miles (2002) - though with a wider definition of the relational category. Some of these readings explain an approach to stakeholder theory that focuses on firms. On the other hand, there are readings that focus on a relationship between the firm and its stakeholders. Lastly, there are a few works that throw light on how stakeholders influence the firms and put pressure on them.

Table 1.2: Categorization of Descriptive & Instrumental Works I

	Descriptive	**Instrumental**
Firm Management	Dill (1975) Hosseini & Brenner (1992) Donaldson & Preston (1995) Mitchell et al (1997) Maren & Wicks (1999) Jawahar & McLaughlin (2001) Post et al (2002)	Dill (1975) Freeman (1984) Savage et al (1991) Kotter & Heskett (1992) Donaldson & Preston (1995) Jones (1995) Harrison & St. Caron (1996) Wheeler & Silanpaa (1997) Preston & Donaldson (1999) Maren & Wicks (1999) Post et al (2002) Jenson (2002)
Integration with other Theories	Pfeffer & Salancik (1978) Hill & Jones (1992) Rowley (1997)	Pfeffer & Salancik (1978) MacNeil (1980) Hill & Jones (1992) Clarkson (1995)
Public Policy	Ramirez (2000)	Van de Ven (1980) Altman & Petkus (1994) Ramirez (2000)

In Table 1.3, the above discussed readings are reframed in three categories: firm-focused (stakeholder analysis for the viability of the firm i.e. firm as the main beneficiary; no input from the stakeholders in decision-making); relational (collaborative decision-making or greater interaction, collaboration, looking for more widely accepted solutions); stakeholder influence (how stakeholders can influence).

Table 1.3: Categorization of Descriptive & Instrumental Works II

Firm Focused	Relational	Stakeholder Influence
Pfeffer & Salancik (1978) *[Resource dependency]* Freeman (1984) *[Enlightened self interest]* Savage et al (1991) *[potential of threat & cooperation]* Kotter & Heskett (1992) *[Adaptive Culture]* Hill & Jones (1992) *[Stakeholder-agency theory]* Donaldson & Preston (1995) *[Intrinsic value of stakeholder interest]* Clarckson (1995) Mitchell et al (1997) *[Power, legitimacy, & urgency]* Wheeler & Silanpaa (1997) *[Balanced representation of interests]* Maren & Wicks (1999) *[No conflict between fiduciary responsibility &stakeholder management]* Jawahar & McLaughlin (2001) *[Long-term view of the organization]* Jensen (2002) *[Enlightened value maximization]*	Dill (1975) *[Involvement through Kibitzing]* McNeil (1980) *[Relational Contracts]* Van de Ven (1980) Altman & Petkus (1994) *[Social Marketing]* Jones (1995) *[Contracts based on trust and cooperation]* Harrison & St. Caron (1996) *[Partnership for organizational flexibility]* Preston & Donladson (1999) *[Collaborative activities between the firm and stakeholders]* Ramirez (2000) *[Collaborative process]* Post et al (2002) *[Organizational wealth through stakeholder management: license to operate]*	Hosseini & Brenner (1992) *[Analytical Hierarchical Process]* Rowley (1997) *[Network view]*

The Debates

The true nature of stakeholder theory is difficult to determine. This difficulty is caused by the fact that the theory encompasses and tries to explain a broad phenomenon. It is an environmental and a systemic look at interactions between firms and their stakeholders, and between different stakeholders. Finally, it involves theories and

concepts from several disciplines and even crosses the boundaries of sub-divisions within the field of management.

The biggest source of controversy emanates from the three analytical categories given by Clarkson (1995). We have already seen that the normative perspective covers numerous ethical principles. At a very basic level the normative stakeholder theory aims at altering the way firms operate and reassessing their place in the community—i.e., giving importance to stakeholder views and interests and serving the community and not just the shareholders. This view goes against the established shareholder norms, and the institutional and governance structures erected in support of these norms.

Stakeholder theory also tries to explain organizations, which are seen as a "constellation[s] of cooperative and competitive interests possessing intrinsic value" (Donaldson & Preston, 1995). As a descriptive theory, stakeholder approach tells us what is happening at the present time. Do managers consider their organizations as nexus of numerous interests, with intrinsic values, or do they just concentrate on the short-term interests of the firm, which are solely based only shareholder interests? The instrumental aspect of the theory is more practical and assesses the theory's relevance to the achievement of corporate and social goals.

The main point being that if we look at the three analytical categories we will see that stakeholder theory tries to explain, and link many diverse and sometimes dissimilar aspects of organizational life. Occasionally, these aspects align with each other, but oftentimes they do not, therefore, adversely affecting the overall theoretical viability and coherence of the theory. In the following section we will discuss scholarly views on reconciliation or disagreement between the three analytical categories of the theory.

Finally, as already discussed stakeholder theory has, so to speak, challenged the prevailing wisdom and practice of fiduciary responsibility of the managers to their shareholders, by extending organizational responsibility to stakeholders. How far scholars extend this responsibility depends upon how they define stakeholders. This gives rise to two more debates: who is a stakeholder or who should be, if at all, included in organization's responsibility sphere; and do firms have responsibility towards groups other than their shareholders.

In this section, we will also attempt to give an overview of scholarly work on the above debates. The purpose here is to provide a wide spectrum of arguments and not to critique or to give solutions, which will be forthcoming in the next section.

Theoretical Issues

Since Donaldson & Preston (1995), stakeholder theory has been attributed as having four basic aspects: descriptive (describing how organizations interact with stakeholders and vice versa); normative (how organizations should treat their stakeholders); instrumental (how to meet stakeholder expectations and enhance firm performance); managerial (how managerial behavior is important in establishing a stakeholder organization). This categorization has instigated a discussion among scholars as to how these fundamental aspects of the stakeholder theory are interrelated. The following is a cursory view of various opinions by scholars on the above mentioned four aspects. The section will also include works that attempt to untangle the intricately jumbled threads of stakeholder theory.

The two important works discussed earlier -- i.e. Freeman (1984) and Donaldson & Preston (1995), resulted in a unified stakeholder theory and its division in analytical

categories. Freeman gave a firm centric theory that cautioned managers to include stakeholder interests in their decision-making, so that their organizations are able to survive in a turbulent environment (Walsh, 2005). Donaldson & Preston classified the theory and argued that that the core of the theory is normative. Freeman, as we will see in the subsequent discussion, agreed with Donaldson & Preston on the normative aspect as being the core of the stakeholder theory. After these two contributions the third important contribution comes from Jones & Wicks (1999a). This article, as we will discuss below, initiated an important and influential discussion on the categories enumerated by Donaldson & Preston, their interrelationship, and their relevance in stakeholder theory.

Jones & Wicks (1999a) go over the literature on stakeholder theory and assess that there are two different emerging perspectives, which are, the social science (instrumental and descriptive) and the normative. They assess the possibilities of merging these two perspectives. For this purpose they develop a 'Convergent Stakeholder Theory', which combines the normative and the social science characteristics of the theory. The scholars argue that the social science and the normative aspects are interlinked, and they cannot survive without each other. They begin by stating that the normative aspect of the theory is different from the orthodox functionalist and social science view. It stresses on the moral obligation, and articulates that managers have to consider the interests of various stakeholders. Normative theory is a "narrative interpretation" that creates narrative accounts of moral behavior in a stakeholder context.

On the other hand, the social science facet of the stakeholder theory is divided into descriptive, and instrumental. The descriptive part provides us with a picture of how managers consider the interests of their stakeholders, and how stakeholders affect and

influence managers. The problem with the descriptive theory is that most stakeholder theorists seem to agree that human tendencies are: varied, variable, and malleable. They argue that based on this agreement we can say that descriptive theory is beyond the reach of contemporary stakeholder theorists.

Therefore, Jones & Wicks concentrate more on the instrumental aspect of the theory, which tries to establish a cause and effect relationship between stakeholder management and organizational success. After explaining the social science, and the normative aspects, the scholars give their main argument, which is, "shared values and shared understandings driving stakeholder research render fundamentally incomplete any theory that is either exclusively normative or exclusively instrumental." The scholars argue that there is a need to develop a convergent stakeholder theory, which would alleviate the social science objection that narrative accounts fail to meet the standards of good research.

They propound their 'convergent stakeholder theory' as 'a class of theories', representing the following characteristics:

- The following boundary conditions are met:
  - ➢ Firms are publicly held and function in competitive markets.
  - ➢ Decision-making is in the hands of professional managers.
  - ➢ A Normative core describes the instrumental behavior.
- The theory assumes that human behavior is varied and malleable depending upon the circumstances and context. Organizational structures and cultures affect individual behavior.

- The theory has a broader meaning than just contracts and transactions. It is in fact a theory of relationships.

- It is both normative and instrumental as it argues that following the normative principles will lead to results that are both normatively and instrumentally acceptable.

- It has a normative core, and its instrumental means are not for achieving immoral goals and immoral behavioral standards.

- "Its instrumental means-ends chain is persuasively argued and demonstrates the practicality of the behavior called for in the normative core."

- It is managerial as it should give managers instructions related to:

  ➢ Ways to structure relationships with corporate stakeholders.

  ➢ Moral foundation of these relationships.

  ➢ Expected outcomes from these relationships.

  ➢ If the ends of the organization are unconventional then managers should also be given moral justification for them.

The main purpose of convergent stakeholder theory is, as obvious from the above principles, to create stakeholder relationships that satisfy the requirements of normative and instrumental aspects of stakeholder theory and make it more practicable.

The above article prompted a debate among stakeholder scholars on the three stakeholder theory aspect-- i.e. normative, descriptive, and instrumental. In some ways the debate is still going on, but initially it was featured in the 1999 (Vol. 24, N0. 2) issue of *Academy of Management Review*. It raises many questions, challenges established views, and creates more confusion as to the real nature of the stakeholder theory. But at

the same time the debate also raises many important questions sets the stage for further theoretical development.

Freeman (1999) argued that there is no need to bifurcate the theory into normative and instrumental. He further argues that the use of the term 'stakeholder' is an obvious literary device to call into question the emphasis on stockholders. According to Freeman, "by choosing to call groups "stakeholders" rather than "interest groups", "constituents", or "publics", we have already mixed up "fact" and "value." The very idea of a purely descriptive, value-free, or value neutral stakeholder theory is contradiction in terms." The normative is built in the instrumental of the theory and there is no need to separate the two.

Trevino *et al* (1999) argue that stakeholder analysis does not fulfill the standards of a theory; therefore, it is a research tradition. They further argue that if an instrumental stakeholder theory is created the issue would be to integrate instrumental with the descriptive and the normative aspects. The attempts to create stakeholder theory look like "special case applications of the existing organizational science theories of resource dependence, power, conflict and negotiation, legitimacy, and so on." Trevino *et al* conclude that stakeholder is more like a research tradition which "incorporates multiple varied theories that are focused on the same domain of observed or postulated phenomena or related sets of questions and problems." They finally argue that if considered as a research tradition there would be no need to develop a 'grand theory' of stakeholders.

Gioia (1999) says that Jones & Wicks (1999a) argue that the simultaneous accounting of moral and practical is what makes 'convergent stakeholder theory'

transformative. Jones & Wicks further argue that their theory is instrumental as 'moral behavior in the form of trusting relationships will lead to competitive advantage." Gioia argues that there is nothing new in this, and the idea is not 'transformational', as it does not give practical answers to managerial issues. He further critiqued that the basic premise of the theory is that "interests of all (legitimate) stakeholders have intrinsic value", and "no set of interests is assumed to dominate the other.' This premise according to Gioia is naïve, non-practical, and non-pragmatic. There is no acknowledgment of whose interest is more important, and it would be impossible to take decisions at the corporate level if managers do not know priorities. Gioia argues that Jones & Wicks' work seems to aim at getting legitimacy for normative approach in organizational theory, practice, and research. But they have not been able to merge normative thought with social science thought in the paradigmatic sense, which is much deeper and more comprehensive integration of paradigms.

Donaldson (1999) maintains his four aspects of the stakeholder theory and argues that the managerial aspect of the theory can serve as the glue between the instrumental and normative aspects. He argues that the stakeholder theory discusses and refers to the consequences of managerial behavior and tries to predict how managers will react in certain conditions or how should they react. Therefore, we can get a clearer picture of the theory by focusing on the manners and psychology of the managers. The reconciliation between the interests of the stakeholders and shareholders is done through the belief that that the interests of shareholders is also met by attending to the interests of other stakeholders. Preston & Donaldson (1999) follow the previous line of thought and propose that "organizational wealth-that is the aggregate value of a going concern-can be

enhanced by appropriate linkages, both formal and informal, with most, if not all, corporate stakeholders. Hence the pursuit of organizational wealth is an appropriate goal and justification of stakeholder management." The authors reiterate that the basis of the stakeholder theory is "normative in the moral/ethical sense."

Jones & Wicks (1999b) in their reply to the above critiques argue that Trevino & Weaver's criticism that stakeholder theory is not a viable social science theory is not supported by credible empirical evidence and consequently the importance of 'extant instrumental theory', which predicts competitive advantage for firms that create mutually trusting and cooperative relationships with stakeholders, does not decrease. They further reply to Trevino and Weaver's critique that there is no theoretical integration between the normative and the instrumental, and argue that they never claimed this integration. Their claim is that stakeholder theory achieves some features of symbiosis, but not all. They argue that 'convergent stakeholder theory' only means that "managerially relevant stakeholder theory should be both morally and instrumentally sound --i.e. have both normative and empirical components--a considerable departure from previous work in the area." Finally, Jones & Wicks reiterate their earlier view that they have given a theory of relationships focusing both on the instrumental and the normative.

Finally, Donaldson (2007) reiterates his normative core argument by giving a historical perspective of corporations. He opines that the first attempt to understand the market is Adam Smith's "*Wealth of Nations (1776)*", which resulted in mercantilism. Adam Smith disapproved of corporations and followed the view that their agency problems were far more complicated than partnerships. But in Smith's time corporations were not as dominating as today's business and economic environment. This domination

has lead to theories that focus on the importance of corporations like: transaction cost theory, principal-agent theory, and the free market theory. Finally, anomalies in the above mentioned theories have now led to the 'normative revolution'. The core of this revolution is that: institutions now need to have normative justifications and stakeholders have intrinsic worth as now people are important.

As noted earlier the above debate has by no means ended. However, Phillips, Freeman, & Wicks (2003) give us some clarifications as to the nature of scope of stakeholder theory. They argue that stakeholder theory is primarily a moral theory that means that its content is moral and not amoral. It addresses morals and values explicitly as a central feature of managing organizations. Following Freeman (1994), they state that there are many moral cores or normative justifications for the theory, like: common good, feminist ethics, risk, integrative social contracts theory, property rights, Kantianism, doctrine of fair contract, and principle of stakeholder fairness. They reiterate their position on the normative aspect, but more importantly, in this article, they suggest what stakeholder theory is not, and discuss some of the misinterpretations, and distortions associated with it. The critical distortions attributed to the theory are:

- It is an excuse for managerial opportunism: The allegation that stakeholder management can lead to managerial opportunism, is not tenable. Managerial opportunism is prevalent in organizations run on shareholder principles as well. On the other hand, being answerable to multiple constituencies can lead to greater accountability.

- It cannot provide an objective function for the corporation: True to some extent, as stakeholder theory does not provide a logarithmic table for each day. It

is difficult to set *a priori* the stakeholder map, and the way you will deal with them. But this is not necessary. In for-profit organizations it does aim at value maximization which could be different from shareholder value maximization.

- <u>It is principally concerned with distribution of financial outputs:</u> this is not true as input in the decision-making is also important. The Procedure is as important as the final distribution. Fairness is at the heart of the concept.

- <u>All stakeholders must be treated equally:</u> Not so.

The misinterpretations are:

- <u>Stakeholder theory requires change in laws</u>: They argue that discourse concerning legal changes is welcome but the theory does not require a change in the law to remain viable.

- <u>It is thinly-veiled socialism and refers to the entire economy</u>: Stakeholder is a theory of organizational ethics and strategy and not of political economy.

- <u>Stakeholder theory is a comprehensive moral doctrine</u>: A comprehensive moral doctrine is that doctrine which is able to cover the entirety of the moral universe without reference to any other theory. All moral questions can be answered from within a comprehensive moral doctrine. Stakeholder theory is not intended to provide the answers to all moral questions.

In this section we have discussed some of the ongoing theoretical debates regarding the theoretical cohesiveness of stakeholder theory. We began with discussing the three conceptual categories enumerated by Donaldson & Preston (1995). Donaldson & Preston gave their three categories to glue together the various aspects of stakeholder theory. In doing so they gave rise to a debate of how these three stakeholder theory

aspects can be reconciled with each other. Many scholars believe that the core of the theory is normative and descriptive and instrumental revolves round that core, so there is no need to bifurcate these categories as they do not contradict each other (Freeman, 1984; Donaldson & Preston, 1995; and Freeman, 1999). On the other hand, some scholars, in their attempt to make stakeholder theory more practical, have reconciled normative and instrumental aspects (Jones& Wicks, 1999a & 1999b). Critiques of stakeholder theory have decried the theory by saying that stakeholder theory does not fulfill the requirements of a theory as its conceptual categories cannot be reconciled (Trevino et al, 1999) and there is nothing new or transformational in the whole concept (Gioia, 1999).

If we closely examine all of the above discussed literature we will see that the main problem is not with the conceptual categories but with the assumptions behind these categories. Scholars who believe that normative, descriptive, and instrumental can be reconciled and united into one theory—i.e. Stakeholder Theory—they are arguing in favor of a none-traditional approach to running a business. They are saying that businesses can be run on values and normative cores and they need to take into consideration the interests of other constituencies other than the stockholders. On the other hand, the critiques of stakeholder theory are saying that normative and instrumental are not reconcilable and, therefore, stakeholder theory is neither new or a bona fide theory.

In this section we have only tried to raise some questions. The above debate is still in the air but in the following section of "Reinvestigating Stakeholder Theory" we will try to resolve some of the discussed issues.

Who is a Stakeholder?

Mitchell *et al* (1997), in their very important work, have traced the development of stakeholder definition from the Stanford Research Institute memorandum[2]. They have analyzed almost 30 definitions and have concluded that over the years, stakeholders have been defined in two ways-- i.e. in a broader sense, and a narrower sense. Starting with the broader definition, Freeman (1984) defined stakeholders as, "any group of individual who can affect or be affected by the achievement of the firm's objectives." Freeman in his works with other academics (Freeman & Reed, 1983; Harrison & Freeman, 1999) has maintained this broad definition of stakeholders. There are other authors who have dealt with this issue of defining the stakeholders in a broader sense (Hill & Jones, 1992; Brenner & Cochran, 1991; Hosseini & Brenner, 1992; Harrison & St. John, 1996; and Carroll, 1993).

These scholars have basically taken their cue from Freeman's basic definition and extended the concept in some ways. Hill & Jones (1992) define stakeholders as groups who have legitimate claims over the firm. Brenner & Cochran (1991), and Hosseini & Brenner (1992), include the concept of "relative influence" of each stakeholder as the basis of management decision making**.** Carroll (1993) establishes stakeholders based on the legitimacy of the claim and the power that they wield. Harrison and St. John (1996) recognize stakeholders based on: contribution to uncertainty facing the firm's future, ability to reduce that uncertainty, and strategic decisions made by the firm that can make one stakeholder important in certain conditions. Barbara Gary (1989) goes beyond Freeman's definition and adds not only the affected parties but also the experts on any

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[2] The fact has been mentioned in Freeman (1984) and Freemen & Reed (1983). In Freeman (1984) p49, Freeman explains his quest to confirm this piece of information

certain issue under debate. Her idea is to cast a wide net and create a broad spectrum of stakeholders to get all the angles on an issue.

There are a number of academics who have defined stakeholders in a narrower sense in order to define the scope of stakeholder management (Mitchell *et al*, 1997; Frooman, 1999; Kochan & Rubinstein, 2000). Mitchell et al (1997), define stakeholders on the basis of relevance to the firm's core economic interests. They argue that the concept of power is important for defining stakeholders but they change the concept of 'social legitimacy' that is also necessary for broader definition and put stress on legitimacy based on the narrow interests of the firm. They suggest three elements that give salience to stakeholders: power, legitimacy, and urgency.

Frooman (1999), with the application of resource-based theory, defines four categories of stakeholder-firm relationships, and four types of stakeholder influence strategies. Kochan & Rubinstein (2000), base the salience of stakeholders on how much they have contributed to the firm, how much they have risked for the firm, and their influence over the firm (Kochan & Rubinstein, 2000). Ramirez (2000) and Post *et al* (2002) take their cue from Kochan & Rubinstein. Ramirez stresses on power, voice, and the ability to be noticed. Preston *et al* put the salience of stakeholders on their ability to create wealth for the organization and their stake in the organization as potential beneficiaries and risk-takers.

The broader view gives a rather vague description of stakeholders. The reason for this is that its proponents want to bring into the equation the aspect of social responsibility of the firms. These authors want to talk about ethical dilemmas faced by managers while making decisions. Some believe that the original idea behind stakeholder

management approach was to try to find a way to integrate the economic with the social (Harrison & Freeman, 1999).

The narrow definitions, on the other hand, focuses only on the firm's core interests as seen by the management. They center on stakeholders who have greater salience for a firm's success and existence. Narrow definition gives definite features for stakeholders, which make it easier to identify stakeholders. These features also give the dynamic quality to the concept as any entity with the salient features can be a stakeholder while the ones without these features or the entities that no longer have these features are non-stakeholders. The issue with the narrow definition is that once you decide the critical features then all other groups without these features are excluded. An issue that will be discussed when a possible solution to defining stakeholders is discussed in the next section.

Stakeholder v. Shareholder

The stakeholder v. shareholder debate has been touched briefly in the theoretical issues section. In this section we will try to understand the arguments on both sides of the divide with their underlying assumptions.

In the shareholder concept, as we will see, the main idea is that managers, as responsible trustees have fiduciary responsibility only to their shareholders. In its purest normative form stakeholder theory says that the firms and managers have a greater responsibility to the community and groups within the community. If we subscribe to this belief then essentially we are changing the functions of the firms and managers who run them. We are extending managerial responsibility, which goes against the prevailing wisdom, and economic theory (the capitalistic free market system), legal understanding

of the firm (fiduciary responsibility), and prevalent management theory (principal-agent theory). In short, in the present milieu of greater competition, increased awareness, and technological change stakeholder theory has challenged the validity of a number of established dogma, which has led to the allegation that stakeholder theory is 'thinly-veiled socialism' (Freeman, 2007) contradicting the spirit of capitalism, free-market, and voluntarism.

In this section we will discuss some scholarly views on the 'shareholder v. stakeholder' debate. The purpose here is not say which argument is right or wrong, but the main focus is to provide a continuum of views. We will also, in this section, discuss views on corporate social responsibility (CSR). CSR, though not strictly part of the stakeholder theory, will be discussed as corporate social responsibility also sparks the same concern among scholars -- i.e. fiduciary responsibility to shareholders as opposed to broader responsibilities. Some scholars believe that corporate social responsibility (CSR) lays down the principle of responsibility to the community and stakeholder theory actually helps in ascertaining who in the community is important (Clarkson, 1995). Therefore, scholarly views discussed below include opinions on both the stakeholder theory and corporate social responsibility as an antithesis of the established shareholder view.

Three articles published in the Harvard Law Review in the early 1930s will set the tone of the debate that follows. A pertinent observation is that these articles were written in the depth of the Great Depression, which was the appropriate time to delve into the questions of social responsibility, shareholder value, and business ethics. Berle (1931) argues in support of the concept of fiduciary responsibility, which makes the shareholders

the sole beneficiaries of the corporate enterprise. He argues that the concept of fiduciary responsibility is important in view of the increased powers in the hands of the executives, and mismanagement of shareholder profits.

Dodd (1932) sympathizes with the need for control over the agents for the sake of stockholders. But he does not agree that there is a need for an increased emphasis on the sole purpose of the firm as serving the stockholders. He argues that public opinion "which ultimately makes laws, has made and today is making substantial strides in the direction of a view of the business corporations as an economic institution which has a social service as well as a profit making function." Dodd mentions regulations and laws that were changing and giving more protection to labor as an integral part of the enterprise. Dodd further argues that there is a growing understanding in people, even those who are of capitalist inclination, that if firms need to survive they can do it better if they take security and welfare of workers as one of its obligations. As a reply, Berle (1932) reiterates his point of view, and adds that diluting managerial responsibility by adding responsibility of the society would be detrimental to the whole community. He also argues that protection of private property is a vital principle in a society with individuals.

In more recent years, Milton Friedman (1970) scoffs at the concept of 'social responsibility'. He argues that talking about social responsibility in a free enterprise system is nothing less than preaching socialism. The underlying principles in a free market mechanism are: unanimity; and voluntary cooperation. Managers are responsible to the corporation and indulging in CSR by the managers is like taxing the shareholder without their consent. Davis (1973) gives a whole list of arguments in support of and

against CSR. Arguments against CSR are primarily based on Friedman's views. Arguments in favor include: good for the long run interests of the firm and the society; use of business expertise and models for social good; and avoidance of government regulations.

Ackoff (1981) traces the development of the modern corporation. He states that corporation in the beginning was developed as a machine. The purpose of the machine was to serve its creator by giving good returns on investment. After the WWI, the firm concept evolved to the concept of an organism. Corporate profits were like oxygen to the organism, and purpose of the organism was to grow and survive. He argues that with recent interest in environment and CSR the organization is seen as having three levels of purposes: societal, organizational, and individual. Management is seen as having three different responsibilities: of control (the system); of the people who are a part of the system (humanization); and of containing the system with other systems (environmentalization).

Coming to more recent works, Donaldson & Preston (1995) discuss the theory of property rights linking it with stakeholder theory. They argue that right to ownership, is not unrestricted. They argue that the right of property is embedded in the human rights and restriction against the harmful uses of the property rights (that is intrinsic to property rights) is a clear indication of interests of others in the whole equation. Thus the theory of property rights in its modern and pluralistic form supports the stakeholder theory.

Hasnas (1998) evaluates two arguments against the stakeholder theory: utilitarian and deontological. The utilitarian argument goes like this: stockholders advance capital to managers to be used for certain purposes, in return they get certain ownership interests;

the mangers are bound by a fiduciary duty to the stockholders; and the managers are supposed to follow the legal directions of the stockholders. The scholar says that the stockholder theory is sometimes imprecisely linked to utilitarian concept of requiring the managers to maximize returns to the stockholders. Utilitarian argument says that the business has no legal and social responsibility other than maximization of profit. The scholar favors the "deontological" argument that money is given to the managers on the condition that it will be used in accordance to the wishes of the investors. If the money is used by the managers for social purposes without the authorization of the stockholders then it is spending other people's money without their consent. So if the managers are looking after the interests of the stakeholders then they are violating their contract with the shareholders.

Palmer (1999) suggests a deontological theory that actually favors the stakeholder over the stockholder theory-- i.e. Ross-style pluralism. This pluralism underwrites the stakeholder theory by creating two types of responsibilities--i.e. prima facie and general obligations. This pluralism recognizes the fact that managers have the obligation to get profits for the present stockholders. But they can have other obligations towards employees, and future stakeholders etc. If the purpose of managers is only to increase profit for the stockholders then there can be situations in which they might do things that are legal and honest but are unethical. The stakeholder theory based on the Ross-style pluralism gives a better tool to the managers to understand their role and responsibilities.

Maren & Wicks (1999) argue that there is no conflict between the managerial fiduciary responsibility and the normative aspect of the stakeholder theory. The common law recognizes a number of legal relationships, and fiduciary duties are one of them. The

statutes can bring "comparable legal protection to constituents other than stockholders, and suggest ways that these protections might be strengthened." The main argument is that the fiduciary principle cannot explain the relationship of all stakeholders with the firm and there is no empirical evidence that suggests that owing duty to one stakeholder can be a source of constriction in dealing with other stakeholders, as prescribed by law. Hendry (2001) goes over a number of normative stakeholder concepts, categorizes them and looks at the claims made by them. Eventually, he argues that normative stakeholder theory has not been able to develop a viable substitute to shareholder view.

Freeman *et al* (2004) support stakeholder ethics against shareholder ethics. They argue against the separation thesis that ethics and business are two separate fields. They discuss the principles of shareholder ethics discussed by Sundaram & Inkpen (2004)[3], which are: the shareholder maximization goal is pro-stakeholder; maximizing shareholder value gives incentives to managers to take entrepreneurial risks; having more than one objective makes governance difficult; it is easier to make shareholders out of stakeholders than vice versa; and in case of breach of contract, stakeholders have protection through contracts and legal system.

Freeman *et al* (2004) give their counter argument to the above and conclude that: creating value for stakeholders is decidedly pro-shareholder; creating value for the stakeholders gives the managers the proper incentive to assume entrepreneurial risks; having one objective would make governance difficult if not impossible; it is easier to make stakeholders out of shareholders than vice versa; and shareholders also have protections e.g. the market for shares.

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[3] For greater detail read, Sundaram A., & Inkpen, A. (2004), "The Corporate Objective Revisited", *Organizational Science*, 15(3) 350-363

Thompson & Driver (2005) believe that stakeholder analysis will bring both efficiency and equity. But they support a system of implementation that is based on voluntary CSR. The authors argue that voluntary CSR is not as threatening to companies as formal corporate democracy could be. It is embraced, enthusiastically, by the companies as it is the lesser evil.

Crouch (2006) gives a market based view and argues that there is very little, except self-regulation, which can make the MNCs reduce their negative impact in the community. This is true for both levels i.e. global and local. The key word that he uses is "externalities." He defines externalities as, "any impact of the firm that falls outside the normal transaction of the firm". He considers CSR as a preemptive strategy of risk management. The purpose is to perceive the future effects of externalities created by the organization on the society and society's reaction to it that might be translated in political/economic-market based- control. This he argues takes care of Freidman's argument (firms take steps to increase social responsibility to increase its profit or decrease negative effect on its profitability) and CSR (cost incurred by the firms for externalities leading to an improved bottom line). He further argues that only legal rights create stakeholders and all other entities can have a market relationship, and if this is the case then there is no need for the concept of stakeholders.

Freeman (2007) welcomes Milton Friedman into the fold of stakeholder theorists by pointing out similarities between Friedman's views and the stakeholder concept. He argues, if stakeholder theory is interpreted as: managers have a responsibility to create value for stakeholders as this is the way to create value for the shareholders as well; and where there is a conflict the managers need to rethink ways to find solutions that create

maximum value for both parties, as no stakeholder interest stands alone, then Friedman would also agree with the stakeholder theory.

Barnett (2007) links efforts for CSR and benefits from these efforts with path dependency. He argues that reactions to firms indulging in CSR would differ because of prior beliefs of the firms and characteristics of each of the donating firms. "The path dependence of firm stakeholder relations helps to explain why the financial return to CSR differs across firms and time, and serves as a cornerstone of a contingent framework for the business case, offered to supplant a long standing quest for a universal business case for CSR". Finally, Charron (2007) considers stakeholder theory as a revisionist and dangerous theory aimed at taking over the corporation.

Until now we have discussed scholarly works that have either supported stakeholder view or CSR or they have opposed it. There are some scholars that have also given models to solve this debate. These scholars basically believe in the shareholder value system but they also want to incorporate social responsibility. The models that we will discuss now will show that they put additional responsibility on the managers and firms but they do not wander too far from the shareholder ethics.

Goodpaster (1991) argues that the term stakeholder was developed in the early 60s as a "deliberate play on the word "stockholder"." He defines stakeholders as defined by Freeman (1984). Goodpaster delves into the question that responsible corporate decision making is made difficult by the problem that "how there can be an ethical relationship between management and stakeholders that avoids being too weak (making stakeholders mere means to stockholders' ends) or too strong (making stakeholders quasi stockholders in their own right)". To avoid this paradox he gives the 'New Stakeholder

Synthesis'. Taking business ethics seriously does not mean that managers have multi-fiduciary responsibilities to third parties but it means that they have non-fiduciary responsibilities to them.

Langtry (1994) agrees with Goodpaster, as discussed in the normative stakeholder theory section, Langtry favors a 'tinged stockholder theory'. Tinged stockholder theory asserts that firms main responsibility is to shareholders but it is also legally, morally, and socially responsible. Rodin (2005) gives a model of distribution of business responsibility that he argues lies between the shareholder and stakeholder ethics. As discussed earlier, he propounds his 'ownership model' in which he puts full responsibility of minimal obligations on both owners and managers, while maximal obligations is put fully on owners and with limits on managers. But he admits to one serious problem with the model, which is that it is more applicable to small organizations. Finally, Heath (2006) criticizes stakeholder theory on creating multiple purposes for the firm and undermining efficiency. The scholar gives a 'market failure approach' that is close to Langtry's 'tinged stockholder theory', which advocates that firms should be run to maximize interests of the stockholders, subject only to legal constraints and moral and social obligations.

In sum, we can say that the scholars who have opposed stakeholder theory have done so on the grounds that stakeholder theory: is against fiduciary responsibility (Berle 1931 & 1932; Hasnas, 1998); is against private property rights (Berle, 1931 & 1932); dilutes the responsibility of managers towards shareholders (Berle, 1931 & 1932; Friedman, 1970); has socialistic tendencies (Friedman, 1970; Charron, 2007); leads to extra taxation (Friedman, 1970); is against the principles of the free market (Friedman,

1970); it does not provide a viable substitute to shareholder theory (Hendry, 2001); gives an inferior solution than the market solution (Crouch, 2006).

Scholars who have supported stakeholder theory have done so on the basis that stakeholder theory: is adequately equipped to deal with a changing environment and public opinion (Dodd, 1932; Ackoff, 1981); leads to the long term benefit of the firm and the society (Davis, 1973); supports that normatively shareholder benefit should not be the sole purpose of the firm (Dodd, 1932); leads to no conflict with property rights i.e. modern pluralistic property rights theory (Donaldson & Preston, 1995);is based on common law and there is no conflict between fiduciary responsibility and normative stakeholder theory (Maren & Wicks, 1999); and, combines ethics and business (Freeman, 2004 & 2007).

Finally there are scholars who wanted to go beyond the strict constraints of the shareholder approach and, therefore, have differentiated between fiduciary and moral obligations. They gave models like: new stakeholder synthesis (Goodpaster, 1991); tinged stakeholder theory (Langtry, 1994); minimal and maximal obligations (Rodin, 2005); market failure approach (Heath, 2006); prima facie and general obligations (Palmer, 1999); and voluntary CSR (Thompson & Driver, 2005).

Reinvestigating the Stakeholder Theory

Theoretically stakeholder theory has many controversies. In this section, we will attempt to resolve some of the controversies.. We will go over some of the important and contested areas of the theory with the intention of answering some of the questions raised in earlier sections. This section will set the stage for our theoretical stakeholder model, discussed in detail in Chapter 2, which aims at unifying the theory with its normative,

descriptive, and instrumental aspects; but, at the same time, making the theory more practicable. It is pertinent to add here that the answers and the models discussed in this section are by no means the last words in the development of the theory. They represent another theoretical opinion that would sometimes coincide, and sometimes disagree with the already discussed scholarly views.

Who is a Stakeholder?

The debate on the identification of stakeholders goes to the very heart of the theory's scope and importance. As we have seen, some scholars like to define stakeholders broadly, so as to increase the firm's social responsibility. On the other hand, there are firm-centric definitions, which give precise salient features for defining stakeholders, and aim at the narrow interests of the firm. It is evident that the main debate is still on should the firms be socially responsible, if so then how much, and is there a middle ground where social responsibility and firm interest can be reconciled?

Keeping in view the immense resources of the modern day multinationals and their ever-increasing influence in the society, it is important to put stress on organizational social responsibility. But as Max Clarkson aptly remarked, "stakeholder theory should not be used to weave a basket big enough to hold the world's misery." So how can we define stakeholders in a more comprehensive way that brings together the firm-centric and the larger societal approach?

Although defining stakeholders is of vital importance, there are some prerequisites that also need to be considered before we actually get to the definition. The Stakeholder definition is seen as a starting point for the stakeholder analysis and the basis of its validity. The first important factor is that the definition should have both fixed and

dynamic features. Organizational strategy and preferences should provide managers with *a priori* list of stakeholders. On the other hand, the current business environment is so turbulent that having a completely static definition could be very detrimental; therefore, the environmental imperatives should provide some dynamic characteristics to recognize stakeholders.

The second important factor is a systemic view. The stakeholder theory is basically a systemic theory that views organizations interacting with their environments. Therefore, we need to have a theoretical basis for defining stakeholders that envisages a systemic analysis. Finally, stakeholder definition should bring sustainability in stakeholder management as an organizational strategy. If stakeholders are defined too broadly then the question is how long this stakeholder management strategy is sustainable for a firm, before stakeholder management digresses into a failed policy? On the other hand, if the definition is too narrow then stakeholder management does not equip managers with a systemic view of the organization that is necessary to survive in a turbulent economic environment.

Starting with the fixed features the important question is that in today's dynamic environment what is the need and relevance of fixed stakeholder lists? *A priori* stakeholder list restricts the organization and makes it less flexible in adjusting to a changing environment. That being said every organization has a mission statement and an overall strategy. The organizational strategy is the core of all organizational actions. Based on the core there are some stakeholders that are, in general, more important than others. Therefore, they need to be spelled out to give broad guidance to managers and to create uniformity and predictability in managerial actions.

To maintain flexibility in organizational strategy we not only need dynamism but also a systemic and a sustainable approach to the process of stakeholder recognition.

Freeman (1984) has defined stakeholders as individuals and groups that are affected and can affect the organization. Freeman was trying to bridge the gap between ethics and business. But essentially, his definition and his model were firm-centric as they focused entirely on the survival of the firm and not on the overall benefit of the society. Additionally, the definition was too broad to be practically applicable. There have been attempts in bridging this gap before and after Freeman. Dill (1975) took a broad definition of stakeholders but narrowed it down with the addition of 'influence' on the firm. Phillips (2003) distinguishes between normative and derivative stakeholders of the firm. The firm has moral obligations to its normative stakeholders, "an obligation of stakeholder fairness, over and above that due other social actors by virtue of their being human" (Philips, 2003). These groups include communities, employees, financiers, and suppliers etc. Derivative legitimate stakeholders are those that can affect the organization and its normative stakeholders like; activists, competitors and the media. Dill's definition is ambiguous and can even include terrorists as stakeholders, while Philips' definition does not define legitimacy.

Vos (2003) uses critical systems heuristics (CSH), developed by Werner Ulrich (1983, 1988)[4], to develop a model to identify stakeholders. He sees the concept of "affected" and "can affect" as an important distinction. The CSH belongs to the systems theory. A system is considered as consisting of a "number of elements and the relation between those elements." The principles of CSH are: the idea of "human intentionality"

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[4] For greater detail read W. Ulrich, *Critical Heuristics of Social Planning: A New Approach to Practical Philosophy* (Chichester: Wiley, 1983); Ibid., "Systems Thinking, Systems Practice, and Practicla Philosophy: A Program for Research," *Systems Practice* 1, no. 2 (1988).

(in making plans for the social reality the "planner" "designer" has to deal with human intentions and purposes); the systems idea (social systems have to be designed to be purposeful); the moral idea (the system should also be able to tell us what we "ought" to do and not just how to do things); and the guarantor idea (the planner should try to improve human conditions by his actions, he must be aware of the moral implications of his plan, the planner should try to add as many guarantees for the success of the plan as possible).

The main conclusions from the above are: the planner must refer to a variety of people; planning should be a public activity; and stakeholder management should also be a public activity. Ulrich says that there are two reasons that anyone can belong to the system: he is actually or potentially affected by the outcomes of the system; and because he is some kind of a resource (expertise, political etc). This leads to two boundary judgments: one, that there are stakeholders and non-stakeholders; second, that there are affected and involved stakeholders. Ulrich argues that the affected group, which is affected by organizational policies but is not involved in any way with the organization, is hard to define as it is difficult to assess all constituencies that might be effects due to organizational actions in the community or society. Therefore, Ulrich says, this affected group can only be bounded through representation. This representation should be done by the affected group, and not the management. He comes up with a new role of a "witness" who will argue the case of the "affected." The witness is involved only on behalf of the affected and his main purpose is emancipation and arguing the case of the affected.

The constructive and helpful point of the above analysis is that it gives a systemic view. It also takes care of groups, which, according to Freeman and Ulrich, are affected

but are not really involved with firms or powerful enough to influence them. But it does not give us salience of stakeholders. Affected groups that also have representation can still lack legitimacy of claim, social acceptance, and relevance for the firm. Another pertinent observation is that through representation Vos has created another group that serves only the purpose of representation, which means that if they are not the actual part of the affected group then they could have selfish interests that might clash with the interests of the affected group itself.

Stakeholder theory needs to be a practical theory. The concept of stakeholder recognition should be based on practical, realistic, and useful standards. As already pointed out, stakeholder definition should represent a systemic view with both dynamic and stable features, and most importantly it should bring sustainability to stakeholder strategy.

Heckscher *et al* (2003) argue that the question of stakeholder recognition should not rest on who should be the stakeholder but it should base on which group was able to force its way through and was successful in becoming a stakeholder (Heckscher *et al*, 2003). Therefore, one way to resolve the issue of definition is to add those groups as stakeholders which are organized and have demonstrated that they cannot be ignored on issues of interest (Heckscher *et al*, 2003). In this way, there would be more flexibility in defining stakeholders. But at the same time only those groups can be added as stakeholders that go through the process of organization and are able to get political support, social acceptance, and subsequent influence on the decision-making process from the community (Heckscher *et al*, 2003).

To sum up the above discussion, the dynamic salient features of organization, social acceptance, legitimacy, and influence, make stakeholder definition well rounded. The salient feature of influence gives stakeholders importance from the point of view of the organization. They will be considered if they have influence over the firm. The organizing capacity of stakeholders or the fact that they are organized makes their influence possible. If stakeholders have representation then active and vigilant stakeholders will keep the representatives in line as well. Organizing ability also gives stakeholders a way to create social acceptance from the community. Social acceptance, on the other hand, brings in the normative values of the society. The society will only support or give acceptance to those stakeholders that champion causes close to its own normative standards.

The definition is also dynamic as new stakeholders will organize all the time creating new scenarios in the environment. Older stakeholders might lose their organizing capacity, or they might merge into another group, or just disintegrate under the overwhelming appearance of a large more powerful stakeholder. This definition is also sustainable as firms do not need to take into account the interests of all stakeholders, but only those that have influence over them. This definition has a kind of dual message: one for the firms to take care of the stakeholder that have influence over them; second, for the society, and for the would-be stakeholders that if they want to be heard get organized. Finally, political support gives stakeholders influence and social acceptance. Therefore, all of these features are interlinked and support each other.

In sum, the fixed list gives the core around which the managers can, based on the features of organization, social acceptance, and influence, build a more dynamic system of recognizing stakeholders.

Is Stakeholder Theory a Bonafide Theory?

Another important question is that whether stakeholder theory fits the profile of nascent social science theory. This question was raised by Trevino & Weaver (1999). They argued that "scientific theories, especially in their earlier stages of development, often lack the conceptual and measurement precision, empirical adequacy, and/or explanatory power of long-studied theories." They further argue that there must be minimal standards that should be met even for theories at an embryonic stage, which are: there is no reason to suppose that the theory's basic claims are incorrect; the theory could be changed and amended to make it complete and comprehensive; the theory has utility and some use in solving important issues; finally, it should give "parsimonious answers to important conceptual and empirical questions" (Trevino & Weaver, 1999). Based on these views they argue that the three aspects of the stakeholder theory i.e. normative, instrumental, and descriptive have no link. They further add that it might be possible to come up with an instrumental stakeholder theory, but then it would be difficult to link it with descriptive and the normative.

Based on the above criteria we can say that there is no clear evidence that stakeholder theory is not a theory. We have seen that as a theory it is still at an embryonic stage. There are many theoretical models and conceptual debates in the theory. It has, and is borrowing from other management theories. But at the basic level, as pointed above, its fundamental claims (both at firm and societal level), make sense. The core stakeholder

theory claims begin by describing business environment in which organizations exist and operate and declare that there are various stakeholders that have influence over the firm. Therefore, in order to be successful, firms now need to understand and address the claims of these stakeholders. Furthermore, if the legitimate claims of the legitimate stakeholders are fulfilled then it would lead to mutual benefits for the firm and the stakeholders. It is true that there is very little empirically evidence to support these claims, but that does not mean that these claims are wrong or cannot be proven.

The second standard that the stakeholder theory should be able to be amended can also be met by the very fact that theoretically there are so many models that give many variations of the theory. If through research some are found to be correct then they will be accepted and others will be discarded.

The third standard for a nascent theory is its utility. At a very basic level the question is, does stakeholder theory add value to the understanding of organizations functioning in today's turbulent environment? To this standard, we can also add the question that does stakeholder theory give us a different view of existing problems, and answers unique questions that other prevailing theories don't?

Starting with the agency theory Charles and Jones (1992) while propounding their 'agency-stakeholder' theory argue that there is need to expand agency theory as it does not take into account all contractual relationships between stakeholders and the firm. It can also be added here that it is not only the contractual relationships, but also the non-contractual relations that the theory does not take into account. Resource dependence theory suggests that those groups and entities will have power that control vital resources of the organization. Transaction cost theory suggests that the "power accruing to

economic actors with small numbers bargaining advantages will affect the nature of firm governance and structure" (Mitchell *et al*, 1997). Basically this means that external stakeholders can increase transaction costs to the level where they will become important for the organization.

It is clear from the brief description of the resource dependence, transaction cost, and agency theory that these theories put together give us a good explanation of power, relationships between important entities and the firm, and legitimacy of claims (Mitchell, et al, 1997). But there are many aspects of the modern business environment that go unanswered. One very important issue is a systematic identification of stakeholders and their salience. Other important insights that stakeholder theory gives are regarding: interrelationship of stakeholders (contractual and non-contractual) and the firm; explaining the changing, turbulent, and intrusive environment, and methods and ways to deal with these changed circumstances; dealing simultaneously with societal issues and the firm's viability-- i.e. the normative revolution as discussed by Donaldson (2007); and dealing with conflicting interests and demands aiming at conflict resolution. In sum, other organizational theories might delve into some of the issues discussed above but none of them tries to explain all of them.

Based on the above discussion we can say that stakeholder theory is indeed a theory. It is a theory that looks at important questions in a unique way. Its main premises are not wrong and it has the conceptual variety and flexibility to change and evolve. We can here also admit that stakeholder theory is at an embryonic stage with very little empirical research behind it; but it most definitely fulfills the standards of a developing

theory. One important test of a nascent theory not covered in the above discussion—i.e. parsimonious representation of concepts-- will be discussed in the following section.

The Role of Business in the society and Need for Stakeholder Theory

It is not the purpose of this section to delve into the historical debate on the position of business in society. The focus in this section is the recent academic discussion on corporate social responsibility, corporate social responsiveness and corporate social performance in order to ascertain the need for stakeholder theory. The main argument in this section is that stakeholder theory provides the required refinement and parsimony to non-traditional or non-Friedmanesque views on the role of business in society.

The debate over the purpose of the corporation has a long history in American society. In the early years of the nation, corporations were expected to exist for the public good (Kochan & Rubinstein, 2000). By the late 1800s, however, the notion of a shareholder maximizing principle began to emerge along with the modern American corporation (Kochan & Rubinstein, 2000). In the last few decades, social issues that have been discussed for centuries have joined mainstream management literature as a legitimate area of inquiry (Harrison & Freeman, 1999). Hence, there has been recrudescence of ideas about the proper role of business organizations in society (Harrison & Freeman, 1999).

Wartick and Cochran (1985) trace the concept of "corporate social responsibility" (CSR1)[5] and discuss the work of H. R. Bowen (1953), who defined CSR1 as the need "to pursue those policies, to make those decisions, or to follow those lines of actions which

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[5] In this study I will maintain consistency with the acronyms employed by Clarkson (1995) i.e., Corporate Social Responsibility (CSR1) and Corporate Social Responsiveness (CSR2). This style was also followed by Frederick, W. C. (1978) *From CSR1 to CSR2: The Maturing of Business-and-Society Thought* [*Source for correction of title punctuation is: http://bas.sagepub.com/content/33/2/150.abstract -VG*]. Working Paper no. 279, Graduate School of Business, University of Pittsburgh.

are desirable in terms of the objectives and values of our society."[6] This definition of CSR1, as discussed by Wartick and Cochran, rests on two premises. The first is that businesses exist for the sake of society and must therefore operate within societal parameters. The second is that businesses need to act as "moral agents" of society and therefore reflect the values of society. In other words, CSR1 signifies that businesses should work for the benefit of society even as they strive for economic gain (Wood, 1991). This definition of CSR1 has opened a debate over whether such a concept is tenable in today's social and economic setting. Such a debate lies outside the framework of this present work. What is needed is a further refinement of the concept of CSR1, and to apply it to our understanding of proactivity in stakeholder management.

In particular, CSR1 addresses businesses' responsibilities toward society as a normative concept, but it does not elaborate a mechanism for their fulfillment. Society is a very large formation composed of many sub-divisions, each expressing differing interests and demands. Rather than enter into the debate over how businesses *should act* when varying needs of society clash, this study addresses a debate that is more pertinent at this present stage: how do businesses actually decide which sector of society should be served?

CSR1 assumes that business organizations are obligated to serve the interests of society. But how? To answer this question, it is important to examine the concept of "corporate social responsiveness" (CSR2). Responsiveness is "an ecological concept suggesting organizational survival through adaptation to environmental conditions" (Luo, 2007), originally, "the capacity of a corporation to respond to social pressures" (Frederick, 1978). The idea behind this concept is that organizations must have some

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[6] Bowen, H. R. (1953) *Social Responsibility of the Businessman*. New York: Harper & Row

knowledge of their environment in order to adapt to it. In discussing W. C. Frederick's (1978) work, Wartick and Cochran (1985) agree with him that CSR1 can be considered a noun, while CSR2, a verb. In other words, CSR1 is more of a normative philosophical imperative or set of values of an organization, while CSR2 addresses managerial policies for *actively* dealing with external and internal issues confronting the firm.

Two questions are now posed. First, does CSR2 replace CSR1 or can they be combined into one concept? And secondly, does the concept of CSR2 in relation to stakeholder management needs to be further refined?

If CSR2 replaces CSR1, then the latter is later is subsumed in the former. But to accept this is to overlook the fact that a company can be highly responsive and yet not socially responsible. We have already discussed that CSR1 is a philosophical imperative, or a set of higher moral values of a firm. CSR2, on the other hand, pertains to a firm's managerial actions. In other words, while responsiveness does extend and deepen the concept of social responsibility, it does not replace it (Wartick and Cochran 1985; Wood 1990, 1991; Carroll 1979).

Because CSR 1 and 2 can be seen as two separate but complementary concepts, many scholars have sought to unite them into "corporate social performance" (CSP) models, so as to make CSR1 operational and CSR2 normative (Carroll 1979; Strand 1983; Wartick and Cochran 1985; Wood 1991).

Carroll (1979) defines CSP as a "three dimensional integration of corporate social responsibility, corporate social responsiveness, and social issues." Earlier, the Carroll (1970) model placed the four dimensions of economic, legal, ethical and discretionary responsibility within the sphere of CSP. Strand (1983) described his model as

encompassing four concerns: "(a) cultural and economic environments, (b) material, social and psychological experience of the constituents, (c) social demands and expectations placed on the organizations, and (d) the environmental texture of organizations."[7] Wartick and Cochran (1985) have created a CSP model composed of three main categories: principles (economic, legal, ethical, and discretionary—representing the philosophical component); processes (reactive, defensive, accommodative and proactive—representing institutional orientation); and policies (issue identification, issue analysis, and response development—representing organizational implementation). Wood (1991) offered his own CSP model with three subdivisions: principles of corporate responsibility (legitimacy, public responsibility, and managerial discretion); processes of corporate social responsiveness (environmental assessment, stakeholder management, and issues management); and outcomes of corporate behavior (social results, programs, and policies).

As is evident in all of the models above, scholars have sought to integrate economic with normative values, and combine actions with philosophical goals.

Therefore, it follows that CSR1 and CSR2 are complementary concepts. CSR1 provides the normative principles, while CSR2 guides operational methodology. Further, in combining these concepts, several scholars have developed wider CSP models that not only combine the two concepts but may offer more nuanced understandings of CSR1 & CSR2.

We now turn to our second question: Is it necessary to conceptualize CSR2 in connection with the stakeholder concept in order to improve it operationally? Especially, keeping in view the previous discussion in which CSP has further refined the concepts of

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[7] Wartick & Cochran (1985), P 764

CSR1 and CSR2. But before we answer this question it is important that we discuss two things: do CSP models give precise directions to recognize and interact with the environment; and are all social issues the responsibility of the firms.

The concept of CSR2 primarily consists of organizational actions responding to external social pressures. But what is the source of these pressures and which groups or constituents in the environment need to be addressed? CSP models may be helpful in answering this question by defining the scope of inquiry. For example, Carroll (1970) categorizes organizational responsibility into four dimensions. Strand's (1983) model adds several contingency variables like economic environment, experience of the constituents, and cultural environments. Wartick and Cochran (1985) present thematic categories from an organization's perspective and offer an organizationally orientated CSP model that accounts for social pressures and implementation of policies. Wood's (1991) CSP model even extends to its social results. This model also gives greater weight to the processes of its second subdivision, that which addresses environmental assessment, conflict resolution, and stakeholder management.

CSP is conceptually useful. Yet, within the large scope of accepted dimensions that comprise CSP, arises a more pragmatic but critical question: Does CSP offer operational tools through which managers and organizations can recognize and negotiate with the sources of pressures with their environments?

A closer look at what CSP entails is necessary to approach this question. Wood (1991) defines CSP as "a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to firm's societal relationships." We have also discussed Wood's

(1991) model of CSP including several CSP dimensions that are broad in scope an inextricably linked with the concept of "social responsibility."

A pertinent question here is whether all social issues are the responsibility of the business organizations. Clarkson (1995) argues that not all social issues are managerial concerns. Additionally, businesses organizations in general cannot be made responsible for all social issues faced by society. He adds that the problem with the concepts of CSR1, CSR2 and CSP is that they take a "broad and inclusive meaning of the word *social*[8]." In support of his argument, Clarkson (1995) develops a list of issues related to corporate performance. He finds that all of the issues on the list are typical stakeholder issues—they are linked invariably to some organizational stakeholders, not essentially out of concern for society at large.

Returning to our second key question, is stakeholder theory necessary when we can use CSR2 and CSP? Based on the above discussion, we can say that from an organizational perspective stakeholder theory is necessary precisely because it does home in on organizational policies, actions and goals to specific stakeholders, thereby offering managers and organizations a clearer picture of the entities they interact with.

We may build on this argument based on operational weaknesses in CSP. Wood (1991) points out that there is a need to understand processes of CSR2 and that future research questions should include the following: determinations of which environmental pressures to respond and how to prioritize them; policy orientations and methods related to external environments; managerial efforts to develop and implement "responsive programs and policies" and "standard operating procedures"; and response efficacy.

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[8] Italics in the original

All of the above areas need to be further researched, but they can be explored most efficiently when the concept of organizational responsibility is viewed through the lens of stakeholder theory. Only by understanding business organizations as a nexus of stakeholder interactions can we fully explore the noted empirical questions.

Is Stakeholder Theory a complete Moral Theory?

If stakeholder theory is a complete moral theory then we will have to outline a complete set of norms for it. But if it is not, then the interpretation of the normative aspect of the theory will be different. Phillips, Freeman, & Wicks (2003) discuss this issue in some detail. They start with Rawls' description of a complete moral theory. Rawls argues that "a comprehensive moral doctrine is one that is able to cover the entirety of the moral universe without reference to any other theory. All moral questions can be answered from within a comprehensive moral doctrine." Rawl further claims that "not only does this conception not depend on a single, religious, national, cultural or moral theory for its foundations, but that it is consistent with a "reasonable pluralism" of such doctrines. One need not convert from her preferred doctrine in order to accept justice as fairness. All reasonable moral doctrines already accept it from within their own conception" (Phillips, Freeman, & Wicks, 2003).

To sum up, a comprehensive moral doctrine will answer all questions related to morality in all situations and contingencies. Additionally, there are some basic transcending norms that are present in all "reasonable moral doctrines" (Phillips, Freeman, & Wicks, 2003).

The above discussion clarifies one very important aspect of the stakeholder theory-- i.e. the normative aspect. If the stakeholder theory is not a comprehensive moral

theory then we should not aim to resolve all ills of the society through its application. To say this does not mean that socially responsible organizations are not needed, or the normative aspect in stakeholder theory does not exist, or is superfluous. What it means is that moral ethical business behavior should not be expected automatically when an organization is practicing stakeholder management. More precisely, social moral precepts will not be voluntarily evident in business ethics.

Moreover, if we consider that business organizations must have normative cores then the question is that what is a normative core? It could be different in different organizations and it can also be based on shareholder ethics (Freeman, 1994). In short, the stakeholder theory is not a complete moral theory. Which means that: first, the societal normative precepts do not get represented in organizational ethics mechanically; and second, the normative cores can vary from organization to organization.

Concluding Remarks

Out of the multitude of views what conclusions have we drawn? We began with defining stakeholders. Based on our discussion stakeholder definition needs to have both fixed and dynamic features. In the dynamic features most important stakeholder characteristic is organization. Other salient features include: social acceptance, legitimacy, and power/influence over the firm.

We also established that stakeholder theory qualifies as nascent social science theory. Its basic claims make intuitive sense and it; gives answers to important organizational conundrums; looks at organizational issues in a unique way; and gives a parsimonious representation to existing theoretical concepts.

Finally, we have supported the view that stakeholder theory is not a complete moral theory. This means that stakeholder theory does not have answers to all societal problems, societal standards are not automatically represented in organizational norms, and organizations can have varied normative bases.

If stakeholder theory is not a complete moral theory and organizations can have different norms then we are left with the problem of reconciling normative, descriptive, and instrumental aspects of the stakeholder theory. An attempt to solve this issue has been made in the next chapter where we discuss our Unified Proactive Stakeholder Model.

Chapter 2: A Unified Proactive Stakeholder Model

How do we reconcile the normative, descriptive, and instrumental aspects of stakeholder theory? In this chapter we will elaborate a *'Proactive Stakeholder Model'* that will attempt to reconcile the above fundamental categories. We will begin by discussing why we argue in favor of a proactive stakeholder orientation. This will be followed by stakeholder theory's final analysis with the intent to lay down a unified stakeholder model.

We now know that stakeholder theory is not a complete moral theory (Phillips, Freeman, & Wicks, 2003). This means that stakeholder theory is not a comprehensive moral doctrine that provides moral guidance for all contingencies. It is essentially an organizational behavior theory. If stakeholder theory is not a complete moral theory then it also means that: organizations can have different norms and moral bases; and those moral bases will not always reflect societal hypernorms.

As a pure instrumental theory stakeholder management means that organizations and managers should consider only those stakeholders that are important for the survival or progress of the firm. Therefore, an organization, based on the instrumental aspect, can consider shareholders as its most important stakeholders and completely ignore the community or the employees. The normative basis of this organization would be "maximizing shareholder value," which would not reflect the interests of any other potential stakeholders or the norms of the society. Resultantly, though normative, this organization would not be considered a normative stakeholder organization. Because normative stakeholder organizations consider a wider range of stakeholders and aim at balancing interests of societal and organizational goals.

The above discussion again takes us back to our conundrum—i.e. how can an organization be both normatively and instrumentally stakeholder. At the very basic level we are trying to solve the puzzle of how and under what conditions it would be instrumentally possible and beneficial for a firm to recognize a broader range of societal stakeholders and try to balance their interests with those of the firm.

We will begin by a discussion on types of organizational reactions to environmental change and why do organizations need to be proactively stakeholder. This discussion is important as it enumerates features of proactive stakeholder organizations and set the tone of the following stakeholder model. Then we will start with a brief discussion of some of the important works on stakeholder theory. Followed by a discussion on the nature of the theory, and finally, we will suggest a plausible proactive stakeholder model.

It must be noted here that the suggested stakeholder model is theoretical and can best be described as an initial model. This theoretical model is generally supported by our data, however, some aspects of the model have been refined and further clarified by our empirical data and will be discussed in Chapter 9.

Why a Proactive Stakeholder Orientation?

Stakeholder theory equips managers with the tools to understand their environment and successfully negotiate with stakeholders within that environment. Every organization reacts to environmental changes. These reactions depend upon the type and intensity of the environmental change. Freeman (1984) in his seminal work discusses scholarly views of Ackoff (1974)[9] and Post (1978)[10] on organizational reactions to social

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[9] For a detailed study read: Ackoff, R. 1974. *Redesigning the Future*. New York: John Wiley & Sons.
[10] For a detailed study read: Post, J. 1978. Corporate Behavior and Social Change. Reston: Reston Publishing Co.

change and states that the above scholars argue that organizations have four basic ways to deal with environmental change: Inactivity (ignoring the change); Reactivity (waiting for something to happen to react to it); proactivity (predicting the change and positioning the organization to met it); and interactivity (active involvement with the forces of change). Freeman concludes that, "a necessary condition for adopting one or another of these response modes is to be able to understand the changes that have occurred."

The underlying argument in this work is that to gain optimal benefit organizations today need to be proactively involved with their stakeholders. The proactive mode of reaction, as defined in this work, will be discussed in detail later in this section. But in comparison to the above enumerated categories proactive in this work is a combination of proactive and interactive modes.

As concluded by Freeman (1984), the proactive argument in this work is also based on level and magnitude of environmental change. It is argued that today the business environment has become so volatile and interdependent that the real benefit of stakeholder management comes from having a proactive orientation.

The proactive argument has also been supported by a number of scholars who have advocated more collaborative and interactive approaches to deal with organizational stakeholders. Harrison & St. Caron argue that the business environment in which organizations operate have become interdependent and, therefore, organizations now need to be proactively involved with their stakeholders. Savage *et al* (1991) argue that in recent years stakeholders have become more intrusive and aware of their surroundings and the interdependence between stakeholders and organizations has increased. They argue that organizations should cooperate with those stakeholders that can potentially

threaten the organization. Jones (1995) advocates contracts with stakeholders based on mutual trust and collaboration. Finally, Gary (1989) and Wick, Freeman, & Gilbert (1994) also support a collaborative approach to deal with stakeholders.

In short, based on the changes in the environment and the fact that stakeholders today have greater ability to organize and affect the organizations several scholars have supported a proactive collaborative orientation to stakeholder management. That being said, we still have not really discussed proactive stakeholder management contextually and for this work it is necessary to understand what proactive orientation entails. In the following discussion we intend to operationalize proactive stakeholder strategy.

Before we get into defining proactive stakeholder orientation it would be pertinent to discuss some of the models of organizational responsiveness. Wood (1991) model addresses the responsiveness of organizations and argues that organizational reactions could be divided into distinct categories of environmental assessment, stakeholder management, and issue management. But for our purpose more pertinent categorization comes from Sethi (1979), he divides organizational orientations into: reactive, defensive, or responsive. Carroll (1979 & 1991) offers four categories of stakeholder management strategies: reactive, defensive, accommodative, and proactive. Finally, Clarkson (1995) takes his cue from Wartick and Cochran (1985) and Carroll (1979) and develops the "reactive, defensive, accommodative, and proactive" RDAP scale as a way to apply these CSR2 concepts to stakeholder management (Table 2.1). To make the scales more practicable Clarkson adds the element of "posture or strategy" and "performance" to the existing scales.

A pertinent question here is that how do we differentiate between proactive and accommodative stances? Going back to Freeman (1984) proactive is a stance in which organizations predict changes and position the organizations to cope with those changes. The interactive organization is that interacts and gets involved with forces of change, in other words the stakeholders.

Table 2.1: RDAP Scale

Rating	Posture or Strategy	Performance
Reactive	Deny responsibility (Fight all the way)	Doing less than required
Defensive	Admit responsibility but fight it (Do only what is required)	Doing the least that is required
Accommodative	Accept responsibility (Be progressive)	Doing all that is required
Proactive	Anticipate responsibility (Lead the industry)	Doing more than is required

Source: Clarkson (1995), Page 109

Based on the Clarkson (1995) RDAP scale, proactive stakeholder organizations lead the industry and deal with their stakeholders in a more comprehensive way than ordinarily required. But the RDAP scale and the above definition does not explain the components of proactive stakeholder orientation. To break this definition further into its components we can refer to Figure 2.1 that gives some definitive features of proactive stakeholder organizations. Proactive stakeholder organizations constantly survey the environment to identify current and future stakeholders. Once recognized the stakeholders are engaged, by stakeholder organizations, in dialogue to develop mutual understanding and shared goals. Internal stakeholders, in such organizations have autonomy and are valued and engaged in decision-making.

Proactive stakeholder organizations, as defined above, include features of both categories discussed by Freeman (1984). They survey the environment and keep an eye on the changes so as to predict future developments and also equip organization to deal with them. In predicting and dealing with the changes proactive stakeholder organizations reach out and engage the source of most changes in the environment—i.e. internal and external stakeholders.

Accommodative on the other hand are organizations that are progressive and doing the adequate (Clarkson, 1995). This category essentially means that accommodative organizations do not really seek out stakeholders and also do not engage them in useful dialogues, especially in case of external stakeholders. In our sample of organizations we will observe that except J&J almost all other organizations are somewhere between accommodative and proactive. This policy position, as we will discuss later, has some valid logistical reasons that the organizations cannot escape.

We have earlier talked about engaging and involving the stakeholders. It would be pertinent to discuss what engagement means in the context of this work. Engagement as we will see in our analysis of the organizations can mean different things. It could mean that the organizations are engaging internal or external stakeholders to elicit their opinion regarding the firm, products, services, policies, management, and organizational impact on community. This type of engagement is usually done to align organizational policies with the expectations of important stakeholders. Then there is dialogue in which the stakeholders are actually involved in a discourse with the organization regarding matters of common concern. Dialogue signifies a higher level of engagement and is done by the firms to create shared visions with the stakeholders and involve them in decision-making.

Figure 2.1: Features of Proactive Stakeholder Organizations

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External Stakeholders

Conduct continuous Environmental survey

Engage & Collaborate with Stakeholders
- *Solicit Opinion*
- *Dialogue*
- *Involve stakeholders in decision-making*

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Internal Stakeholders
Autonomy

Employees are valued and treated fairly

Engagement in decision-making (Solicit Opinion & Dialogue)

Opinion valued & sought

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The Model

Now that we have operationalized proactive stakeholder orientation let us now attempt to forge a unified proactive stakeholder model that answers some of the theoretical questions raised in the previous chapter. The aim is to lay down a stakeholder model that not only reconciles the three analytical categories of stakeholder theory but also makes it a viable and sustainable business strategy. It would be pertinent to state here that the following discussion on previously done scholarly works do not include a detailed review, which has already been done in Chapter 1. In this section we will concentrate on the scholarly works that are germane to our model.

The Descriptive Category

This is primarily a descriptive work, which means that most of the original contribution of this work explains how organizations are conducting proactive stakeholder management. The reason for this emphasis on descriptive aspect of stakeholder theory is that, first it is the least explored aspect of stakeholder theory and we also agree with Jones & Wicks (1999) that "descriptive stakeholder theory of the

firm…..would create a wealth of research possibilities and would probably catapult stakeholder theory into the ranks of major theories of organization."

Donaldson & Preston (1995) argue that descriptive stakeholder theory shows corporations as center of competitive interests possessing intrinsic value. Freeman (1984) says that descriptive stakeholder theory shows that how organizations interact with their stakeholders- i.e. the way the world is. Jones & Wicks (1999) state that descriptive stakeholder theory "purports to describe actual behavior."When they say actual behavior they mean the behavior of the organizations and managers.

Now the question is that how do we demarcate or sub-divide the overall concept of descriptive stakeholder theory? Analysis of the above definitions does provide us with a starting point. Descriptive stakeholder theory is essentially a narrative of how organizations operate and exist in an intrusive environment. Therefore, the descriptive category can have the following sub-categories: position of the organization in its environmental and social context; behavior and reaction of the firms and its managers to environmental change; recognition of stakeholders by organizations and managers; and resolution of conflict and decision-making in stakeholder organizations.

It would be pertinent here that we discuss some of the relevant literature on descriptive stakeholder theory before we propose our descriptive theory. Freeman (1984) considers firms as the center of many stakeholder interests and argues that interests of all legitimate stakeholders have intrinsic value and all stakeholder interests should be considered. This view of stakeholder interests and supposed organizational reaction to them is agreed by other scholars as well (Hill & Jones, 1992; Jones, 1994; Donaldson,

1995; & Maren & Wicks, 1999). These scholars set the foundation on which descriptive stakeholder theory is constructed.

Then there are a number of works that describe organizational and managerial behavior to stakeholders and environment. Brenner & Cochran (1991) argue that organizational behavior is contingent upon the nature of the situation, values of the stakeholders, and influence of the stakeholders over the firm. Hill & Jones (1992) propound an agency-stakeholder theory and argue that decision-making should take into account the interests of important stakeholders and not all stakeholders as implied by Freeman (1984) and they give managers a unique position in the theory as they are stakeholders themselves and represent other stakeholders.

Rowley (1997) argues that organizations exist in a network where stakeholders have ties with the organizations and with each other. In such networks organizations should react to stakeholder pressures based on its centrality in the network and density of the overall network. Mitchell *et al* (1999) also do not agree with the view that all stakeholder interests need to be considered they give three stakeholder features for firms to decide who gets more attention, the features are; power, legitimacy, and urgency. Finally, Gioia (1999) argues that the basic premise of the theory, based on Freeman's works and Donald & Preston's work, is that "interests of all (legitimate) stakeholders have intrinsic value," and "no set of interests is assumed to dominate the other." This premise, according to Gioia is naïve, non-practical, and non-pragmatic. In reality the business world does not work like that. Generally, stakeholder interests become important for the corporation when stakeholders are able to influence them in their favor (Gioia, 1999).

In sum, there is consensus that firms exit in systems in which there are a number of stakeholders with different claims on them. There are, however, differences in scholarly opinions as to how firms react to these pressures. Some argue that all stakeholders are important and so are their interests, while others give specific features on which to decide who important stakeholders are.

Our descriptive theory also begins with the changing position of organizations in the business environment. We have discussed in detail in the previous section that today organizations not only are a part of a network surrounded by numerous stakeholders, but this business environment has become volatile and stakeholders have become exceedingly intrusive, which means that the erstwhile sacrosanct organizational boundaries have become porous (Savage *et al*, 1991; & Harrison & St. Carron, 1996).

Based on the above we have established in the previous section that in order to do well organizations need to have a proactive stakeholder orientation. The descriptive aspect of this argument is that proactive orientation serves as the foundation of our study. In the instrumental stakeholder theory, which we will discuss later, we link proactive orientation with certain organizational and stakeholder benefits. The descriptive aspect of proactive orientation is that proactive stakeholder organizations have certain features (Figure 2.1) and based on those features these organizations behave in a certain way. These behavioral patterns include how these firms recognize stakeholders and how they deal with them, as discussed in the following paragraphs.

As already argued proactive stakeholder organizations survey the environment and look for engaging new stakeholders. Now the question is that how are stakeholders recognized by the firm. In Chapter 1 we argued that there are two sources of stakeholder

definition. One is fixed and it comes from the leadership's view expressed in mission statements and organizational strategies. Second source represents dynamic features and defines stakeholders as those groups and individuals who are organized, have gained social acceptance and political, and have influence over the firm (Heckscher *et al*, 2003). The main premise of this definition is that *a priori* list for organizational stakeholders to maintain uniformity of organizational behavior but that at the same time there is a need for dynamic stakeholder features that provide the organization the needed flexibility. The above definitional features give a systemic, dynamic, uniform, and sustainable view of stakeholders.

The last descriptive sub-category is conflict resolution. If firms have numerous stakeholders and these stakeholders have different demands on the firm and its managers then there is always a possibility of conflict based on opposing interests. This conflict can exist between interests of stakeholders or between the interest of stakeholders and the firm. Proactive stakeholder organizations believe in seeking out stakeholders, eliciting their opinions, and as much as possible engaging stakeholders in a dialogue. Based on our earlier discussion on scholarly works that argue in favor of a collaborative approach as the best strategy in today's business environment (Gary, 1989; Savage *et al*, 1991) we argue that proactive stakeholder organizations would resolve conflicts through dialogue, discussion, and consensus.

Based on the above discussion our descriptive model is as follows (Figure: 2.2)

- *Organizations are centers of stakeholder interests.*

- *Organizational environments have become highly intrusive and extremely dynamic with numerous stakeholders and constant changing of alliances.*

- *Proactive stakeholder organizations:*

  - ➢ *Conduct constant environmental surveys of their external environment to recognize stakeholders*

  - ➢ *They elicit opinion of the stakeholders and engage them in a dialogue*

  - ➢ *Internal stakeholders have autonomy, are valued, and engaged in dialogue*

- *Proactive stakeholder organizations recognize stakeholders on the bases of fixed variables and dynamic variables*

- *Proactive stakeholder organizations resolve conflicts based on their value statements and aim to develop long-term relations with their stakeholders based on consensus, discussion, and win-win solutions*

The Normative Category

This work, as already pointed out is primarily a descriptive and instrumental look at stakeholder theory. This being said it does not mean that normative aspect of the theory is not important. The reason for descriptive and instrumental focus is that it is very difficult to explore all three aspects of stakeholder theory in one dissertation project. It will also be clear form the following discussion and of the normative aspect of our proposed proactive stakeholder model that proving the normative would have required a different approach and methodology which was not possible within the purview of this work. However, the normative aspect of proactive stakeholder theory is very important and this work does skim the surface of this aspect.

Normative stakeholder theory says that stakeholders have legitimate interests in the "procedural and/or substantive aspects of the firm," and all stakeholder interests have intrinsic value (Freeman, 1984; & Clarkson, 1995). The emphasis in the normative aspect

is that each stakeholder interest deserves separate consideration, and should not be used as a means to further the interest of shareholders.

Figure 2.2: Proactive Descriptive Stakeholder Category

External Stakeholders *Environmental survey* *Engagement with Stakeholders* • *Solicit Opinion* • *Dialogue*	**Who is a Stakeholder?**	**Conflict Resolution**
	Dynamic Features *Organization* *Social Acceptance* *Value adding* *Power & influence*	*Leadership* *Mission Statement* *Long-term relations* *Discussion* *Consensus building* *Win-win Solutions*
Internal Stakeholders *Autonomy* *Employees valued* *Engagement in decision-making (Solicit Opinion & Dialogue)* *Opinion valued & sought*	**Fixed Features** *Leadership* *Mission Statement*	

Based on the above, normative stakeholder theory is perhaps the most debated, and the most controversial part of the overall stakeholder theory. Donaldson & Preston (1995) defined it as the basis of all other analytical categories. Freeman (1999) agreed with this interpretation and said that normative theory tells us the way stakeholders should be treated- i.e. the world as it ought to be. Based on these interpretations Jones & Wicks (1999a) have argued that there is disconnect between social science interpretation- i.e. descriptive and institutional- and the normative theory. They give a 'convergent stakeholder theory' that combines the normative with the instrumental. Gioia (1999) argues that the basic premise of the theory- i.e. interests of all stakeholder have intrinsic value- is naïve, non-practical, and non-pragmatic. Gioia argues that Jones & Wicks have not been able to merge normative thought with social science thought in a paradigmatic

sense. Finally, Trevino & Weaver (1999) have also not been able to find a connection between the instrumental and descriptive and the normative aspects of the theory.

It would seem that the main issue with the normative aspect is that when we talk of it in the spirit of "as the world ought to be," then the concept is not able to reconcile with the practical side of stakeholder theory.

To solve the above mentioned conundrum our earlier discussion on stakeholder theory as a non-comprehensive moral theory can help clear the clutter of arguments. A non-comprehensive moral stakeholder theory implies that: the normative aspect cannot be utilized to rid the community of all its ills; we cannot expect societal or stakeholder values to be reflected automatically in organizational decision-making; and a firm can have different and even multiple normative principles as its core, and shareholder ethics could be one of them.

Essentially, stakeholder theory does not qualify as a hypernorm, representing obligations that apply to all within the society. This discussion left us with the question that what is the place of norms in stakeholder theory, because normative cores of organizations can vary, and societal moral principles are not reflected automatically in the organizational moral core. So there is the possibility of similarity or difference between organizational moral core, and societal norms.

Based on the above enumerated implications we need to distinguish between two types of normative principles. First, there are ethical principles of organizations that are based on organizational and managerial interpretation of their duties to their stakeholders. These could be based on legal requirements and basic ethical principles that the organization adheres to. Second set of ethical principles come from the point of view of

the stakeholders-- i.e. how the stakeholders think that they ought to be treated. The second normative principle also depends upon the norms and hypernorms prevailing in the society.

Going back to our question as to how can we make stakeholder theory normative and practical? If organizations voluntarily leave aside their values and strategies to adhere to all societal norms then this would make stakeholder theory impractical. On the other hand, if only those societal norms are adopted that are represented by organized stakeholders with influence on the firm then stakeholder theory remains normative and practical. This means that the characteristic of organization on the part of the stakeholders glues together normative and instrumental aspects of stakeholder theory. For organizations the relevant norms other their own values are those that come from organized legitimate stakeholders.

In sum, normative stakeholder theory is:

- *Stakeholder theory is not a comprehensive normative theory*

- *Stakeholder theory does not qualify as a hypernorm*

- *There are two types of normative principles: organizational-- i.e. organizational obligations (based on organizational ethical core); and stakeholder/societal hypernorms and obligations (based on societal norms and expectations of the stakeholder)*

- *Societal hypernorms are not automatically represented in organizational norms*

- *To make organizations cognizant of societal hypernorms organizational stakeholders in the society must get organized and influence the organizations*

The Instrumental Category

Instrumental stakeholder theory "establishes a framework for examining the connections, if any, between the practice of stakeholder management and the achievement of various corporate performance goals (Clarkson, 1995). It is perhaps the most important analytical category of stakeholder theory. The reason of this importance lies in the fact that the instrumental category explains the practical importance and use of the theory. The instrumental aspect establishes a relationship between certain organizational behaviors and policies with certain outcomes. It is the 'if-then' statement of stakeholder theory. In our work it is a statement that establishes a causal relationship between proactive stakeholder management and certain organizational and stakeholder benefits.

Various scholars have presented instrumental stakeholder models. Jones (1995) presents an instrumental stakeholder theory in which organizations is a 'nexus of contracts' and contracts based on trust and cooperation between stakeholders and the organization will ensure success for the organizations. Jones & Wicks (1999a) give a 'convergent stakeholder theory.' They give a theory of diverse human behavior and relationships between stakeholders and organizations. The theory is normative as normatively acceptable outcomes are encouraged. But these outcomes, at the same time, should also be practicable. They argue that instrumental theorists should embrace the addition of the normative principles without abandoning any of the criteria of good theory in the organizational sciences. They further argue that an impractical normative core seriously compromises the well being of those with an interest in the firm's success.

In our case we are looking at proactive stakeholder organizations and in this regard there is almost no existing work. Proactive stakeholder management involves organizations that constantly survey the environment and look for new stakeholders. Once these stakeholders are identified they are involved and engaged in a dialogue with a view to create consensus and win-win solutions. In our work proactive organizational behavior has two important aspects: one, proactive stakeholder practices involve a wide range of stakeholders, as any group that has legitimacy of claim can become an active stakeholder from a passive stakeholder; two, proactive stakeholder management is a long-term strategy in which relationships are cultivated over a period of time.

But why should organizations believe in long-term strategies when the prevailing organizational assessment is done on short-term matrices, and what can induce firms to go looking for stakeholders?

The answer to the above questions lies in our discussion, in this chapter, on the need for proactive stakeholder management. Organizations are now more vulnerable to outside influence. The exceeding demands from various stakeholders do affect organizational operations and quite often their bottom lines, as we saw in the NGO campaign against Nike in the late 1990s. To avoid confrontation and potential hurdles, we argue that it can be beneficial for organizations to be proactively stakeholder firms.

At this point a pertinent question is that what is organizational benefit? For the purpose of this work we will use the term "firm goals." The reason for this usage is that firm performance is mostly construed as financial benefit or financial improvement of a firm, while this work is interested in a broader look at stakeholder management benefits. This broader purpose is fulfilled by looking at organizational goals that look at a broader

set of organizational standards that are used to guide, motivate, symbolize, justify, and evaluate organizational and individual behavior (Scott, 1998). Our main argument as far as organizational goals is that to understand the benefits of proactive stakeholder management we need to look beyond financial standards of success.

Another argument in favor of our definition of firm goals is that we it is very difficult to assess the bottom-line effect of long-term policies. How can managers honestly say that the 5% increase in sales in the last quarter was due to the fact that the organization involved suppliers or employees in setting the sales strategy? At a much macro level how can one say that the firm has been profitable just because of its proactive stakeholder policy? The point is that there are so many variables involved in firm performance that it would be almost impossible to attribute firm success in the short run to one policy, especially a long-term policy. Finally, as the proactive policy aims at balancing a wide range of interests we will need to look at its broader benefits and not just shareholder value increase. Therefore, the benefits that we cover in this work are more relational in nature and not financial.

Based on the above discussion the instrumental stakeholder theory states:

- *Proactive stakeholder strategy creates long-term relational benefits for organizations and their stakeholders*

Concluding Remarks

How does the above proactive stakeholder theory reconciles normative, descriptive and instrumental aspects of stakeholder theory? All organizations operating in a society have some normative principles that they follow. These principles, in most of the cases, are not immoral or destructive to the society. But often organizational

normative cores do not coincide with societal normative principles. Another possibility is that in highly competitive situations the organization might indulge in behavior that is opposed to societal norms.

So how do we narrow the gap between what organizations do and what they ought to do? Based on the above model, organizations can have their own norms but if the stakeholders are organized have social acceptance, legitimacy, then they can influence the firms to be more attentive to their particular interests and norms. So in our normative stakeholder theory societal norms are imposed through actions by concerned groups within the society. Additionally, when we say that stakeholders must have social acceptance and legitimacy, we imply that through these stakeholders societal concerns and hypernorms will also permeate the organizational strategy and even its core norms.

Our descriptive model states that organizations now need to have proactive stakeholder orientation because the business environment has become increasingly intrusive and mercurial. Furthermore, we state that proactive stakeholder organizations constantly survey their environments to involve and engage potential stakeholders in their decision-making processes. One of the main features to recognize stakeholders, in our descriptive model, is organization on the part of stakeholders. We can assume that stakeholders that are organized and have societal acceptance will get noticed by proactive stakeholder organizations. In this way the characteristic of organization will also link the normative and descriptive aspects our model.

In the instrumental category we have claimed that proactive organizations with their specific features and behavioral patterns aim at creating long-term mutually beneficial relationships with their internal and external stakeholders. Based on these

patterns proactive stakeholder firms are able to have relational long-term benefits and are able to create win-win solutions benefitting all. The link between the descriptive and the instrumental is quite evident the question is that how is it linked with the normative category. We have earlier discussed that societal hypernorms get into organizations through organized actions of societal groups. If an organization is being proactive and includes societal stakeholder groups in its decision-making and creates consensual solutions then it gets the overall benefit of societal acceptance, which is called "license to operate" and this license is as valuable as an organization's physical and monetary assets (Post *et al*, 2002).

Chapter 3: Literature Review

In the last two chapters we have set the stage to move onto the empirical domain of stakeholder theory. In the first chapter we had a detailed discussion on the theoretical issues and debates in the field of stakeholder theory. We concluded Chapter 1 by replying to some of major theoretical objections and misunderstanding of the theory. In Chapter 2, based on our enhanced understanding of stakeholder theory developed by our discussion in Chapter 1, laid down a basic model Proactive Unified Stakeholder model. In this chapter we intend to combine our theoretical model with the current state of research in stakeholder theory to enumerate our overall research interest and research questions.

The literature review in this section is going to focus mostly on empirical research covering aspects of stakeholder theory. This section will also include some scholarly works that are not empirical in nature but do throw some light on the methodological issues encountered in stakeholder research. The main purpose of this section is to: discuss empirical research in stakeholder theory with the aim to create an overall understanding of stakeholder theory created by this research; based on our analysis of the existing research ascertain what are the research and methodological gaps; enumerate the intended contributions of the present work; and finally, create an understanding of the methodological choices made in this work that will be discussed in the following section on methods.

Three germane points need to be clarified at this stage. The works presented in this chapter most definitely are not exhaustive, but an attempt has been made to include most of the important contributions to better understand the state of empirical research in stakeholder theory. The literature review that follows, generally, covers the three

stakeholder analytical categories given by Clarkson (1995). Finally, as will be discussed later in this chapter this work is primarily descriptive and instrumental; therefore, normative empirical works have not been covered in this literature review.

The Review

There is a dearth of empirical works in stakeholder theory as compared to other older more established management theories. But this fledgling body of work is getting greater attention due to recent stress on equitable economic solutions, and the recent economic consequences resulting from the inadequacies of an unbridled free-market system. As pointed out the literature review is divided into descriptive and instrumental categories with sub-divisions wherever needed.

Descriptive Category: Importance, Incidence, and Dynamics

Descriptive stakeholder theory, as already discussed, describes the way things are. In the context of present research on stakeholders the descriptive aspect covers a lot of distinct but related aspects. First, as a relatively new theory stakeholder theory still needs to establish its importance, especially, in view of the fact that related concepts like CSR 1 & 2, and CSP already exist. Second, as a nascent theory it also needs to establish its validity, descriptive research finds and gives credence to the fact that managers think in terms of stakeholders, internal and external stakeholders do influence firms, stakeholder management is not just an intuitive process undertaken by the management but it is also understood and dealt with in an organized manner. Third, descriptive research also gives us organizational features and mechanisms of proactive stakeholder organizations. Fourth, it tells us that how manager behave proactively and select stakeholders from an array of possible choices, in other words what salient features are needed to be

stakeholders. Fifth, it also explains the internal and external dynamics of stakeholder management, in other words how do internal and external stakeholders affect and influence the firm, the role of leadership in developing stakeholder culture in an organization, and how firms develop ling-term mutually fruitful relations with their various constituencies. In the following discussion we will discuss descriptive stakeholder research covering most of the above areas.

Importance of Stakeholder Theory

We have already discussed in Chapter 1 that stakeholder theory gives a parsimonious representation to the concepts of CSR1 & 2, CSP. In this section we will reiterate some of the points to establish descriptive importance of stakeholder theory.

Most of the literature on CSR 1 & 2, and CSP includes stakeholder management, Carroll (1991) argue that CSR and the concept of organizational stakeholders fit intuitively as the stakeholder concept sketches out distinct groups to whom business is responsible. Wood & Jones (1995) agree with Carroll (1991) and conduct a literature review with analysis of various studies in the field of CSR and conclude that CSP must be integrated with stakeholder theory as stakeholder theory can give CSP the theoretical framework for assessing corporate social performance. According to them stakeholders are sources of expectations, they experience the effects, and evaluate firm's CSP performance, and act upon their interests. Finally, Clarkson (1995) validates the above point of view by the finding that managers actually do not interact with the community but they react and interact to the stakeholders within the community.

In short the point established by the above mentioned works and the detailed discussion in Chapter 1 is that: one, stakeholder theory gives more clarity to the concepts

of CSR and CSP; two, it is important to study stakeholder theory as managers do think in stakeholder terms-a finding that also gives credence to the descriptive validity of stakeholder theory.

Stakeholder Organizational Features

This aspect relates to two different variables: organizational features of proactive stakeholder organizations; and idiosyncratic structures and mechanisms of proactive stakeholder organizations.

First it must be noted that there is little work that actually discusses organizational features and structures of stakeholder organizations. As for proactive stakeholder organizations there is even less available research. One of the reasons for this deficiency could be that to date there are very few in depth case studies in stakeholder research.

The above being said there is, however, an important study by Kotter & Heskett (1992) that discusses the cultural imperatives of a stakeholder firm. The scholars bring out one essential idiosyncratic organizational variable—i.e. culture—and discuss its different aspects. They assert that a strong culture can become bureaucratized, arrogant, and inward looking, which would lead to bad performance. On the other hand, organizational culture that fits the organizational strategy, business context, and industry etc. is more comprehensive than the concept of a strong culture and it also does not underscore the importance of adaptability. Finally, the scholars, based on their findings, state that an organizational culture that is adaptive in nature and can adapt easily to changing circumstances is, over a long period of time, related to superior firm performance. This adaptive culture, according to the study, is developed through paying attention to important constituents of the organization.

The importance of culture, as we will observe in Chapter 7, will come out as an important structural factor in creation and maintenance of proactive stakeholder organizations. But as far as empirical evidence is concerned there is very little work done on organizational features and mechanisms of proactive stakeholder organizations.

Descriptive Validity

As already pointed out stakeholder theory is still going through the teething pains of theoretical development and empirical validity. Some scholars as we have discussed in Chapter 1 do not even consider stakeholder as a bonafide theory. In these early days any research that gives credence to stakeholder concept and its components is very important from the point of view of establishing the theory.

Wood & Jones (1995) argue that stakeholder management gives a better framework for performing corporate social responsibility and corporate social performance by the firms. Clarkson (1995) goes one step further. He finds in a ten yearlong study that it is necessary to distinguish stakeholder relationships from social relationships as managers do not manage relations with the society, but they do with stakeholders. The main descriptive point being that managers recognize stakeholders, and find it easy and useful to perform stakeholder management, rather than instituting policies and procedures for dealing with wider, ambiguous, and unidentifiable social responsibility.

Verschoor (1998) establish the fact that stakeholder management is becoming a major concern in the mainstream management strategies. Greenely & Foxall (1997) establish that organizations do indulge in stakeholder management and attempt at creating a balance between stakeholders and firm interests. These efforts at balance are

external environmental factors and the feature of power in the hand so of the stakeholders. Ogden & Watson (1999) find that managers do consider stakeholders and under established public institutions a balance between stakeholders and firm interest is possible. Several works have established that firms not only do stakeholder management but they have established strategies for doing and these firms do get affected by inside and outside pressures (Berman *et al*, 1999; Louma & Goldstein, 1999; Weaver, Trevino, & Cochran, 1999). Finally, scholars have also researched and found ways in which stakeholders influence firms (Kassins & Vafeas, 1997; & Pajunen, 2006).

Stakeholder Features

In this category we will discuss some of the works that explore salient features of organizational stakeholders. Posner & Schmidt (1984) study of 6000 managers to assess how managers think about issues and values is a precursor to understanding the way managers decide who is important to them. The study evaluates importance of 16 stakeholders in the eyes of the managers and concludes that the most important stakeholders are: myself, customers, subordinates, employees, co workers, and bosses, while stockholders, general public, and government are at the lowest levels.

According to Harrison & St.Caron (1996) political and economic power is an important feature for stakeholders. They further state that stakeholder abilities to: contribution to organizational uncertainty; reduce uncertainties; and strategic choice of firms, are also important in determining stakeholders. Greenely & Foxall (1997) in their study done in England look at multiple stakeholder orientation of companies and its link with performance. Among other things the study finds that "power" is an important

feature for stakeholders with power get priority and consumers remain to be the most important stakeholders.

Agle, Mitchell, & Sonnenfeld (1999) take the next step from Posner & Schmidt (1984) and delve into the question of salient stakeholder features from the firm's point of view. The scholars take the definition of salience from Mitchell *et al* (1997), which rested on three attributes: power, legitimacy, and urgency. They test these three attributes with reference to the company CEOs. The findings prove that stakeholders that are a part of the traditional production function i.e. shareholders, employees, and customers, have higher salience than stakeholders that are part of the broader concept of stakeholders i.e. community and government. The research also proves that the three salient features are important but urgency is the best predictor of stakeholder salience. Kochan & Rubinstein (2000) find that there are three factor required to be a stakeholder: adding to the critical resources of the firm, the value of the stakeholder assets must be linked with the fate of the enterprise, and sufficient power over the firm.

Pajunen (2006) in a historical case study brings out two important features of stakeholder influence, resource dependence and network position. This study further complements the studies that say that continuing support of stakeholders is necessary are important.

It must be noted here that in all of the features enumerated in these studies power or influence has come out as the most important characteristic of stakeholders. Secondly, none of the above studies look at how organizational stakeholders are chosen by proactive stakeholder organizations.

Stakeholder Management Dynamics

Another important stream of stakeholder research focuses on the dynamics and implications of interaction between stakeholders and the firm. Harrison & St. Caron (1996) argue that firm boundaries have become fuzzy. Traditionally, interests of internal stakeholders, like customers and suppliers, were included in organizational strategy. But now there is an increasing interdependence between organizations and their external environment. This increased interdependence necessitates the management of external stakeholders by the firm. Their main thesis is that there is a need for firms to develop proactive partnership techniques with their stakeholders. This proactive partnership would not only to increase control in the face of environmental uncertainty, but also create organizational flexibility. Silanpaa (1998) study the case of Body Shop that develops a social audit program with a proactive approach towards stakeholder involvement. The study shows inclusion of stakeholders is based on alignment of values and dialogue.

Johnson & Greening (1999) assess the effects of different types of stakeholders on corporate social performance strategies. More specifically, they study institutional investors like: public and union pension funds, mutual funds, investment bankers, insurance companies, and private firms. The study gives evidence to support the thesis that different stakeholders have different effects on corporate social performance. Some of these investors act like traders that are only interested in the next quarter and some are interested in the long-term viability of the firm.

Ogden & Watson (1999) argue that stakeholder relationships can be maintained and improved through the presence of regulatory bodies. Therefore, institutions are

important in balancing stakeholder-stakeholder & stakeholder-firm interests. Louma &

Goldstein (1999) also go in the direction of importance of external institutions. They

review the effects of institutional influences at societal level (law), industry level

(industry regulations), and organizational level (size, public visibility on representation of

stakeholders on boards, on specific board committees, and incorporation of stakeholder

oriented committees within boards. Their study finds that the presence of stakeholder

members on firm board of directors is greatest in states where stakeholder legislation has

been passed. This shows that institutional theory perspective is important. This

perspective says that institutional factors, in this case, legal setup, industry, and size of

the firm, do facilitate or impede integration of stakeholder interests with organizational

interests.

Weaver, Trevino, & Cochran (1999) go in the other direction and argue that

executive and top management commitment is important for the creation of meaningful

social ethical programs, and their implementation. Greenely and Foxall (1999) though

support, as earlier discussed, power as an important feature for stakeholders also find that

stakeholder orientation of firms is moderated by external environmental factors like:

competitive hostility, turbulence, technology, and market growth. Kassins & Vafeas

(2002) find that firm's decisions to violate environmental laws decreases with greater

outside directors, and greater stakeholder pressures also decrease violations. Doh & Guay

(2006) find that different institutional structures and political legacies are important in

explaining how governments, NGOs, and the broader policy determine and implement

preferences regarding CSR. Finally, Kochan & Rubinstein (2000) stress on the

importance of institutional support by saying that for stakeholder organizations to exist and prosper it is necessary that there should be institutional support in the US.

Trust is another important element of stakeholder management. If long-term mutually beneficial stakeholder relationships need to be developed then one of the most important ingredient should be trust. Though important, trust has received little importance in stakeholder research. Ogden & Watson (1999) find trust to be an important ingredient in developing stakeholder relationship. Drew *et al* (2003) find that open communication is also important for developing good stakeholder relations. Finally, Strong, Ringer, & Taylor (2001) conduct an exploratory study into stakeholder-firm relations and assess the role of trust in stakeholder satisfaction. Customers, stockholders, and employees of financial institutes were surveyed to assess management behavior that led to their satisfaction. The important factors for stakeholder satisfaction across stakeholders groups were: timeliness of communication; honesty; and completeness of information.

Ogden & Watson (1999) investigate another important descriptive question of whether mangers can balance multiple interests of various stakeholders. They find that reconciliation of interests, and trust can be achieved between various stakeholders through institutional setup and regulatory bodies. Weaver, Trevino & Cochran (1999) discuss factors influencing organizational ethical concerns. They conceptually agree with Agle, Mitchell, & Sonnenfeld (1999) that the top management is essential in setting up ethical programs. They find that external pressures from government, media, and business community interact with management's profit making motives and often result in decoupled and ineffective ethical programs. The descriptive lesson in this study is that

for more effective ethical programs executive commitment is more important than external pressures.

Louma & Goldstein (1999) findings go against Weaver, Trevino, & Cochran (1999). They conclude that institutional pressures, in this case legal changes in state laws, can lead to increased representation of stakeholders in boards of firms. Finally, Pajunen (2006) does an historical case study to understand the role of stakeholder management in times of organizational crises; especially, when the existence of the organization is in question. The scholar finds that managers respond to resource dependence and network centrality of stakeholders. .

Finally, we will talk about stakeholder management and corporate social responsibility (CSR) & corporate social performance (CSP); and intra-group dynamics of stakeholders. Wood & Jones (1995) conducted a meta-analysis of the corporate social performance (CSP) studies and argued that stakeholder theory holds the key to understanding the "business-society" relationship. Stakeholder theory can play three vital roles with respect to CSP: stakeholders are sources of expectation; stakeholders experience the effects of firm behavior; and stakeholders evaluate how well firms have met their expectations. They argue that it is only through stakeholder analysis that a relationship between a firm's actions and its effects on stakeholders can be created. Silanpaa (1998) study the case of Body Shop that develops a social audit program with a proactive approach towards stakeholder involvement. The study shows that greater inclusion of stakeholders by the firm leads to improved relationship with the stakeholders, and greater firm effectiveness. Finally, Wolf & Putler (2008) study the dynamics of stakeholder groups and conclude that there are sub-groups within larger

stakeholder groups and the interaction between these sub-groups affect the overall interests of particular stakeholder groups.

Instrumental: Organizational Goals

A major concern of scholars of stakeholder theory has been the instrumental value of stakeholder management. In our theoretical model we also try to establish causal relationships between proactive stakeholder behaviors and certain useful organizational and stakeholder outcomes. As already pointed out in Chapter 2, for this work we will use the term "firm goals." The reason for this usage is that this work is interested in a broader look at stakeholder management benefits.

Organizational goals, based on our theoretical model and our discussion in Chapter 2, can be diverse, therefore, in this section we will discuss research findings that describe the relationship between different goals and stakeholder management. There are three major goals that we will cover in our discussion, which are: need for flexibility; increased financial performance, and better decision-making through stakeholder management.

Starting with the need for a flexible organizational culture, Kotter & Heskett's (1992) in five years (1987-1991) conducted four studies and concluded that organizations with a culture that puts emphasis on all the key managerial constituencies (customers, stockholders, and employees), outperforms firms that do not have this cultural trait. The importance of this book lies in the fact that it gives empirical evidence that the stakeholder approach develops an adaptive culture-- i.e. adaptive to the needs of the three important constituencies-- and eventually leads to higher performance. Harrison & St. Caron (1996) in their paper stress on the changing organizational environment. They

argue that in order to perform better organizations need to move from traditional stakeholder management tactics to more flexible and proactive tactics for alliance building.

Coming to the relationship between firm performance and stakeholder management we will see that the picture is quite incomplete and vague. Meznar, High, Kwok (1994) did not find a relationship between managerial decisions based on larger ethical issues and increase in stock prices. The scholars compared the stock prices of US firms that withdrew from South Africa due to South African policies of racial discrimination. The stock prices of the US firms that withdrew went down, after they withdrew from South Africa. Signifying, that managers considered interests of groups other than their stockholders, and the market did not look at this action in favorable terms. Therefore, the link between financial performance and ethical considerations was not established.

Greenely & Foxall (1997) find some support for the link between multiple stakeholder management and better firm performance. Their results also show that the impact of multiple stakeholder orientation on firms is moderated by four external factors: competitive hostility; technology; market growth; and market turbulence. Verschoor (1998) concludes that companies among the largest 500 US public corporations, with an explicit ethical commitment towards their stakeholders- i.e. based on references and importance given to stakeholders in annual shareholder reports- perform better than companies that do not have explicit stakeholder commitment. The financial measures to assess the relationship between ethical consideration towards stakeholders, and financial

performance, were: total return; sales growth; profit growth; net margin; and return on equity.

Berman et al (1999) is an important paper that delves into the less analyzed aspect of managerial attention to stakeholders and its effects on firm performance. The scholars discuss two models of stakeholder management: intrinsic model (greater emphasis on performing stakeholder management for ethical purposes as theorized by Donaldson & Preston (1995); and strategic model (managers perform stakeholder management purely for economic gains). Results of the study show that only two variables- i.e. employee and product safety- out of five directly affect financial performance. The other three factors: community, diversity, and natural environment have failed to register any significant impact on financial performance. The research, therefore, gives support to the strategic stakeholder management model.

Ogden & Watson (1999) study a unique situation in England. The scholars observe the changes in a recently privatized public sector utility. The authors state that the case study gives them an opportunity to see how the numbers of stakeholders change when an organization is privatized, and how the organization deals with them. The scholars study the newly privatized firm with respect to two stakeholders i.e. customers and shareholders. They also include the government body created to regulate the privatized water company in their analysis. The study shows that under certain circumstances where the regulatory body is given high degree of discretion, and it also utilizes market incentives, a system can be created in which opposing stakeholder interests are reconciled and there is benefit for all.

Hillman & Keim (2001), like Berman *et al* (1999), find support for the intrinsic stakeholder model. The main framework of the study is Resource Based View (RBV), the scholars have found that stakeholder management may be complementary to shareholder value creation and can provide competitive advantage as it can differentiate the firm from its competitors. They establish a relationship between primary stakeholders and firms' competitive advantage. The study finds that better relations with the primary stakeholders -i.e. customers, suppliers, and community- lead to increased shareholder wealth and develop intangible, valuable assets that can be a source of competitive advantage. On the other hand, using corporate resources for social issues, not related to primary stakeholders, may not create value for shareholders. Omran *et al* (2002) study the mission statements of firms and try to link firm commitment, based on its mission statement, to financial performance. They conclude that there is no difference of returns between the stakeholder and shareholder oriented firms.

In Post *et al* (2002) the central proposition is that firms need to be redefined and configured to cope with the changing environment. Stakeholder management needs to be done, and 'license to operate', form its various stakeholders, is essential for the firm. The scholars argue that a firm is the center of a network of stakeholders, and successful management can build organizational wealth by creating favorable relations with the entire array of its stakeholders. The importance of this study lies in the fact that it proves that good stakeholder management provides legitimacy to the firm from its stakeholders. This legitimacy is a "license to operate," which is as important as any tangible assets the firm might possess.

Bartakus *et al* (2006) also study organizational mission statements and their link with firm performance. The scholars report on the relationship of mission statement quality (based on inclusion of stakeholders, components, and meeting of objectives) to financial performance. The study shows that two stakeholder groups- i.e. employees and society- are related to financial performance of the firm. Movena, Rivera-Lirio, & Munoz-Torres (2007) try to find out the relationship between a company's strategic commitments to stakeholder management with financial performance. The results show that there is a positive but not significant relationship between strategic stakeholder management and performance.

Coming to the last category of organizational goals- i.e. better decision-making- we see that the most incontrovertible evidence of the link between stakeholder inclusion and better decisions and improved policies come from the public sector. Van de Ven (1980) concludes that stakeholder management increases commitment, shared values, and provides wider range of information and improved decision-making. Kelly, Marisa, Maynard-Moody (1993) find that stakeholder management in public sector programs increases mutual understanding and commitment by stakeholders to decisions in which they are involved. Gregory & Keeney (1994) find that stakeholder management is useful in solving public issues as the stakeholder process increases participation. In the private sector, Silanpaa (1998) study the Body Shop case and find that inclusion of stakeholders are useful as it aligns interests of the firm with that of the stakeholders, which eventually lead to the development of improved ethics standards.

Research Questions

In this section we will enumerate our overall research interest and research questions. We will begin by briefly discussing the exiting research findings and its methodological issues. This discussion will inform us of what is lacking in stakeholder research and would form the basis of our research interests.

What we already know?

Importance and relevance of stakeholder theory seems to be an established fact. We now know that corporate social responsibility and stakeholder theory are linked with each other (Jones, 1995). We also know that managers while performing their duties do not look at the community as a whole but see it in terms of groups and entities. This means that managers will not deal with the community but groups within the community (Clarkson, 1995); therefore, stakeholder theory is important as it demarcates various active, potential, and vital stakeholders for managers.

In case of organizational features there are two points that need to be made. First, most of the research done in stakeholder theory is actually done on the various aspects of stakeholder theory as they are found in both stakeholder and non-stakeholder firms. Second, most of this research is quantitative and does not really explore organizational idiosyncratic variables. There are very few case studies that try to create a nuanced and detailed description of the researched organizations, but these case studies do not give a complete picture as they are looking at different questions.

There is, however, one work that does talk of 'culture' in the context of a stakeholder firm-- i.e. Kotter & Heskett (1992). This study shows that for an adaptive culture it is important for organizations to pay attention to customers, employees, and

stockholders. But the important point is that even this study does not go into the mechanisms of culture and how it is established and maintained in the organization.

Coming to the next category- i.e. link between stakeholder management and achievement of organizational goals, we see that at least two works (Kotter & Heskett, 1992; Harrison & St. Caron, 1996) talk of need for flexibility for firms in the present economic context. Kotter & Heskett (1992) find that stakeholder organizations can have a more adaptive culture, while Harrison & St. Caron argue that organizations need to be proactive in recognizing stakeholders in order to be more flexible to survive in a competitive environment. So as far as culture or proactive stakeholder management is concerned there is scant evidence with a lot of room to further develop this line of inquiry. There is also some evidence that proactive strategy of stakeholder management is beneficial (Harrison & St. Caron, 1996; Silanpaa, 1998), but the evidence is very limited and does not really explain the exact benefits of this strategy except for adaptability to a changing environment.

A major question regarding any management theory is its link or lack of it with firm performance. Some scholars have found no relationship of high ethical issues and stakeholder management with firm performance (Meznar, High, & Kwok, 1994; & Movena, Rivera-Lirio, & Munoz-Torres, 2007). But some have found that there is a relationship between wider ethical and stakeholder concerns and organizational performance, these findings range from a significant to a positive but not significant relationship (Verschoor, 1998; Greenely & Foxall, 1997; Post *et al*, 2002; & Bartakus, 2006). Some have contended that there is no significant relationship, but there is also no

negative relationship between firm performance and stakeholder management (Omran *et al*, 2002).

On the other hand, there are studies that find evidence of a link between strategic stakeholder management and firm performance, which basically means that they have found significant positive evidence in favor of stakeholder management and performance but based on the 'intrinsic' or 'firm centric' model (Berman et al, 1999; Ogden & Watson, 1999; Agle, Mitchell, & Sonnenfeld, 1999; Rubinstein & Kochan, 2000; Hillman & Keim, 2000; & Bartakus, 2006). Therefore, these scholars have found different strategic stakeholders to be important for firm performance: employees and customers (Berman *et al,* 1999); customers, suppliers, and community (Hillman & Keim, 2001); and employees and society (Bartakus *et al*, 2006). Moneva *et al* (2007) have found another issue, which is lack of a significant relationship between the strategic model and firm performance.

In sum, there is not yet irrevocable and incontrovertible evidence that stakeholder management, whether intrinsic or strategic, leads to better firm performance. But, on the other hand, we can conclude one thing with some certainty that there are no negative effects of stakeholder management on firm performance. Finally, there is evidence but mostly in the public sector setting that stakeholder management leads to greater information and eventually better decision-making by the management (Van de Ven, 1980; Kelly, Marisa, Maynard-Moody, 1993; Gregory & Keeney, 1994; & Silanpaa 1998).

Descriptively, there is incontrovertible proof that the incidence of stakeholder management is increasing and firms are now purposefully engaging with stakeholders.

There may be disagreement that firms indulge more in the strategic model of stakeholder management or normative, but it is now clear that stakeholder management has found a place in the mainstream managerial strategies.

The question of defining stakeholders is still very much up in the air. The issue is important as defining stakeholders would actually set the boundaries of the theory. Scholars have found certain salient features to identify stakeholders and one recurring stakeholder feature is 'power' (Harrison & St. Caron, 1996; Greenley & Foxall, 1997; Agle, Mitchell, & Sonnenfeld, 1999; & Rubinstein & Kochan, 2000). There are some other important features as: resource dependence (Pajunen, 2006); network centrality (Pajunen, 2006); contribution to required resources (Rubinstein & Kochan, 2000); legitimacy (Agle, Mitchell, & Sonnenfeld, 1999). The bottom line is that there is over emphasis on 'power' as a stakeholder feature and we still don't know how proactive stakeholder firms recognize their stakeholders.

Finally, we come to the dynamics of stakeholder management. There is mixed evidence regarding the effects of internal and external pressures on stakeholder management decisions: some scholars find that leadership is more important in deciding about stakeholder management (Weaver, Trevino, & Cochran, 1999); others find evidence on the importance of external institutions and stakeholders (Johnson & Greening, 1999; Ogden & Watson, 1999; Louma & Goldstein, 1999; Kassins & Vafeas, 2002; & Doh & Guay, 2006). Trust has come out to be an important feature (Ogden & Watson, 1999; Strong, Ringer, & Taylor, 2001; Drew et al, 2003) but there is little work regarding the dynamics of how actually trust created and sustained. Finally there is

evidence that shows that it is possible to balance multiple stakeholder interests (Ogden & Watson, 1999) but again the process has not been explored.

Methodological Issues in the Existing Empirical Works

A detailed review of the methods used in the above discussed studies is beyond the purview of this work. The purpose of this section is to first, discuss some of the pertinent issues in methods and measures used in the discussed studies, and second, based on this analysis justify the methods used in this work-which will be discussed in the next section. The list of studies is not very long, which establishes the fact that to-date there has been much less research in stakeholder theory as compared to more established management theories. Out of the works discussed six studies are from one issue of Academy of Management Journal (1999). These research papers were chosen from a total of 49 research papers received by the journal. These studies have utilized different databases like the Fortune reputation survey and the Kinder, Lydenberg, Domini, and Company (KLD) index, and a variety of methods. The weakness of Fortune reputation survey is that it is based on the assessment of only the senior executives and analysts, which means that it only gives the view of one segment of the business world. Another issue with this data is that Fortune rankings provide only one summary measure of social performance (Harrison & Freeman, 1999).

On the other hand, KLD database is useful, and its one important advantage is that it is based on independent analysts employed by the KLD firm. The issues with the database are that: it has relatively small amount of available data, as far as the number of companies is concerned (Harrison & Freeman, 1999); for CSR it is a much better database but for stakeholder management it has only five categories of employee

relations, product safety, diversity, local communities, natural environment; finally, the database is based on reports of notable socially responsible activities. In short, it does not give an in-depth picture of the firms that it covers.

On the other hand, there is the issue of performance measures used that is used to measures and assesses the efficacy of the stakeholder theory. These can be divided into: accounting or financial measures (return on investment (ROI), increase in net income, return on assets (ROA), return on equity (ROE), and stock prices; and market measures (sales growth, market share, new product success, and market value added).

The main problem is that different studies use different measures and critique the ones that they have not used. Accounting measures are critiqued on the bases that these measures: can be manipulated (Van de Ven, 1980), cannot explain long-term value of the firm, and cannot capture the intangible relationships between performance and stakeholder management (Hillman & Keim, 2001), and cannot indicate owner's evaluation of the performance of the company (Wood & Jones, 1995). Market based measures, on the other hand, are preferred by many scholars (Hillman & Keim, 2001; Wood & Jones, 1995; Greenely & Foxall, 1997) but these also do not establish a clear cause and effect relationship as there are many factors that are involved in increased market performance of the firm. To say that some measures are more important and better than others is not within the purview of this work. Scholars have used the above measures in their studies based on their questions and the purpose of their studies. But the use of multiple measures does create an ambiguous situation.

The bottom line is that most of the studies are quantitative and use a number of different databases and measures. In most cases these databases are not sufficient to give

us an in-depth look at stakeholder management as a whole. The different measures used to assess organizational success vary a lot and almost all of them have been criticized by one scholar or another. Other than the issues with the databases used in most of the studies, and inconclusive evidence, the stakeholder models, discussed in these studies, are also not very sophisticated. This basically means that large stakeholder groups are taken into account while differences between stakeholders are ignored (Harrison & Freeman, 1999). Most importantly, in these studies, the stakeholder theory is divided into small buckets of testable hypotheses. Resultantly, an in-depth overall picture does not emerge. The issue of an incomplete picture or a less in-depth analysis is evident in other quantitative studies as well.

Research Questions

As already pointed out, the research questions in this work are based on two criteria: the theoretical model and gaps in prior research. Essentially the question is that what needs to be done differently in researching stakeholder theory with the aim to develop it? As seen from the previous discussion that when we know about stakeholder theory empirically is in most cases not conclusive. Some of the conclusive evidence is also not robust as it comes out of a few studies and needs more research to increase its validity. A lot of empirical research does find out causal relationships and correlations between different variables of stakeholder theory, but do not really go into mechanisms behind these relationships. For example, many studies find importance and validity of the intrinsic stakeholder model but do not tell us how actually managers perform firm centric stakeholder management. A few talk of a proactive model of stakeholder management but again no mechanisms are identified that can actually achieve the proactive model.

This work primarily aims at developing stakeholder theory in its descriptive and instrumental categories. Going back to our theoretical model, descriptively our model states that: firms are the centers of multiple interests and interactions; external environment of organizations has become more invasive; proactive stakeholder organizations constantly survey their environments to seek out and engage new stakeholders in their decision-making processes; proactive stakeholder organizations also involve and engage their internal stakeholders; in their environmental surveys proactive stakeholder organizations identify their stakeholders based on some fixed and some dynamic variables with 'organization' being the most important stakeholder characteristic; and proactive stakeholder organizations resolve their conflicts by building consensus through dialogue. Our normative category simply states that proactive firms that look to satisfy broader stakeholder interests get long-term relational benefits from their proactive orientation.

Box 3.1

The Overall Argument
   "Business organizations can through a proactive stakeholder orientation create structures and mechanisms that will lead to consensus building and mutual benefits for organizations and their stakeholders"
Research Questions:
   1. Who are proactive stakeholder organizations?
   2. What are the dynamics of stakeholder management?
   3. How are stakeholder organizations created and perpetuated?
   4. What are the relational and strategic benefits of proactive stakeholder management?

The important question is that how much of the above model has been tested? The starting point for this analysis is that our model is based on the assumption that organizations are proactive stakeholder firms, while most of the work cited in the literature review is done on all types of stakeholder and non-stakeholder firms. Most of the works in our literature review are quantitative studies looking at large number of sample organizations with basically no control for their stakeholder orientation. This observation is perhaps the most unique aspect of this study.

Going back to our literature review and starting with the descriptive studies, there is very little work that says that organizations need to have a proactive orientation (Harrison & St. Caron, 1996; Silanpaa, 1998). Then there are a number of studies that look at stakeholder dynamics but as we have already discussed there is no consensus and no clear picture comes out of empirical work when put together. There is also very little work on stakeholder features and balancing of stakeholder interests. In the instrumental category again there is no conclusive evidence. Most that we know is that broader stakeholder management has no negative effects but intrinsic stakeholder model is generally more beneficial to the organization.

What we have learned from the discussed studies is that there are few definitive hypotheses and there are a lot of contradicting findings. Then there is almost no work that looks at proactive stakeholder organizations. Finally, the following areas are still unchartered: what are the characteristics of proactive stakeholder organizations; what are their proactive stakeholder policies and mechanisms; how managers do and organizations recognize their stakeholders; how conflicts resolved in these firms are; how are these

stakeholder organizations created and maintained; and finally, what are the strategic benefits of proactive stakeholder management.

Looking at our research needs from another perspective Wood (1991) discussed future research needs in stakeholder needs and pointed out four general areas of research in stakeholder management. These areas of research can from a business organization's point of view divided into four areas of inquiry: orientation to stakeholder management (what is the philosophy of the firm to deal with its stakeholders and what organizational actions reflect this orientation); stakeholder interaction (who are organizational stakeholders and how organizations resolve conflicts between stakeholder and organizational goals); institutionalization of stakeholder policies within the firm (how a stakeholder firm is instituted and a stakeholder culture created); and efficacy of stakeholder management (how firms evaluate their internal and external stakeholder actions and what are the benefits of stakeholder strategy).

Based on the above research gaps the research interests of this work are:

The Overall Argument

"Business organizations can through a proactive stakeholder orientation create structures and mechanisms that will lead to consensus building and mutual benefits for organizations and their stakeholders"

Questions:

1. Who are proactive stakeholder organizations?

2. What are the dynamics of stakeholder management?

3. How are stakeholder organizations created and perpetuated?

4. What are the relational and strategic benefits of proactive stakeholder management?

Chapter 4: Methodology

The research design of this study makes a significant methodological contribution to existing research on stakeholder theory. In this chapter we detail the unique contribution of this study by focusing on: methodological choices and the reasons for those choices; the research design; research setting; data collection; issues of validity and reliability; and data analysis.

Methodological Choices

What informs the methodological choices of this study? Three interlinked considerations are used to answer this question: the state of existing research in the field of stakeholder theory; need for further development of theory in the field; and finally, the main purpose of the study.

An important question here is that how the above reasons are interlinked? A comprehensive understanding of the state of existing research shows what has already been researched in the field of stakeholder theory and what needs to be done to increase our understanding of the stakeholder phenomenon, including new areas that demand exploration. Based on our understanding of the future development of stakeholder theory, we posit questions to be answered through subsequent research.

In the previous chapter we discussed existing scholarly works in the field and their methodological issues. In sum these issues entail: use of short-term measures to measure a phenomenon that necessitates a long-term strategy; conclusions drawn solely from assessment of the verbal commitment of the firm to stakeholders (e.g. studying mission statements without actually assessing firms' actions, which seems a little

positivistic); non-availability of databases that give an in-depth assessment of stakeholder actions; finally, assessment of stakeholder management through measures that do not stress relational benefits, which are the focus of stakeholder management.

The crux of our discussion in the preceding chapter was that extant empirical work fails to provide a deeper understanding of the dynamics of stakeholder management, managerial decision-making and stakeholder-firm relationships. These shortcomings lead us to conclude that: little empirical work has been done in stakeholder theory, in general, and specifically with reference to the research questions of this work; little is known about the overall stakeholder phenomenon and how organizations perform stakeholder management in their internal and external social contexts; finally, and most importantly, few definitive hypotheses exist in stakeholder theory, revealing the need for theory development and further refinement of research questions and hypotheses.

Theory development is an incremental and iterative process and our push for further development does not denigrate the contribution of previous scholarly works. Previous works have made immense contributions to the development of stakeholder theory and provided the basis for this work. We argue that development in stakeholder theory has reached a point where new methods are required to better develop and understand the stakeholder phenomenon.

We have discussed the two interlinked bases of this research, previous research and the need for further development of theory. Finally, previous scholarly works are also linked with the overall argument and questions of this work. Building on previous work, this study suggests that proactive stakeholder organizations will develop structures and

mechanisms that lead to consensus building and a mutually beneficial relationship between business organizations and their stakeholders. Therefore, our main questions are: who are proactive stakeholder organizations; what are the dynamics of stakeholder management; how are stakeholder organizations created and perpetuated; and what are the strategic benefits of stakeholder management? These questions and our overall argument are based on the revealed significant gaps in the existing scholarly work and inform our research design and methodology.

In sum, existing scholarly works reveal gaps in theory development and lead to the exploratory and evaluative nature of this work. The overall purpose of this work is to gain a rich portrait of proactive stakeholder management with all its processes and management techniques. It follows, therefore, that our study is an interpretative, qualitative/inductive case study following the precepts of grounded theory development (Yin, 2003).

Qualitative Interpretative & Positivist Approaches

Though limitations of prior research and the nature of our research questions are valid reasons to choose qualitative research methods, let us delve a little deeper into the choice of an interpretative methodology. The intellectual nemesis of qualitative interpretative research method would be 'positivism'. A pertinent distinction here is that positivism is sometimes conflated with quantitative research. This is an unfair assumption, because research can be, and often is, quantitative without being positivistic. The following discussion will clarify this point.

Kelly & Maynard-Moody (1993) argue that 'positivism' is based on the assumption that we can best understand the world if we distance ourselves from our own

history and culturally constructed suppositions. Positivism further argues that instead of using inductive methods to develop theories, "we can use empirical observations to test them and attempt to falsify them." The two ontological approaches differ from each other as post-positivists believe that any phenomena we choose to examine do not exist in a vacuum and entail a context, most importantly, a historical one. Hence, analysis involves interpretations of different contexts and our own beliefs. The goal of interpretative social science is to increase information, make it more complex, and "transform thin particularity into thick particularity" (Kelly & Maynard-Moody, 1993).

The creation of "thick particularity" requires deeper interaction between researchers and organizations. Heckscher *et al* (2003) state that in the classical Weberian view of sociology, researchers must be detached and objective. They argue that researchers not only have to know the system (as Weber would suggest), but should interact with actors at all levels. Human beings are unpredictable. Therefore, interaction with them leads to better understanding of their motivations and a clearer picture of the overall phenomenon. It is necessary not only to apply 'understanding' to social science research but also, as (Heckscher *et al*, 2003) put it: "the best way to make sense of a social situation is often not to watch them but to act in them, and then reflect on our experience."

In sum, since social reality is complex, it requires in-depth analyses based on thick description. Compared to positivistic researchers, qualitative interpretativists look for a deeper and a nuanced understanding of social situations. In light of both the gaps in research and our research questions, it is evident that our evaluative and interpretative

queries require data that is rich and nuanced in order to give us a deeper understanding of the entire organizational and environmental imperatives of proactive stakeholder management.

Inductive and Deductive Approaches

This work is inductive, not deductive. In deductive reasoning, a researcher goes through the general theory concerning a phenomenon and draws a certain hypothesis, proposing a relationship between two or more variables. Then the researcher collects data and tests the hypothesis, draws empirical generalizations and contributes to the theory based on whether the hypothesis proves to be right or wrong (Schutt, 2006).

An inductive researcher, on the other hand, first collects the data, then develops empirical generalizations based on the data, and then adds to the theory. The basic progression of inductive research is driven by the data. Some inductivists argue that we could have "the wrong concepts, the wrong questions, and wrong methodology for studying the phenomena we are interested in" (Miles & Huberman, 1984)[11]. Such researchers believe in inductive purity and entering research with minimal framework, research questions, and sample choices.

On the other hand, some scholars believe that prior framing of research choices lead to better research and results. They believe that many inductive researchers are now starting with frameworks, research questions, and sampling techniques. The difference between them and deductive researchers is that "their choices are simply more implicit and the links between framework and procedures are less linear" (Miles & Huberman, 1984).

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[11] Miles and Huberman (1984) though do not advocate inductive purity, but they mentioned this to make their point against it.

Furthermore, in order to deal with subjectivity, an allegation often leveled against interpretative qualitative research, our work is driven by a more reflexive research approach. A reflexive approach requires the researcher to construct knowledge and reality by finding evidence that supports the existing theory but also constructs theory by seeking out and examining disconfirming evidence (Heckscher, 2007; & Miles & Huberman, 1998).

Based on the need for theory development and definitive hypotheses in stakeholder theory, and based on the exploratory and evaluative nature of our research questions, an interpretative qualitative and inductive approach is fitting for this work.

Grounded Theory Development Approach

Next we address the use of grounded theory technique in the present work. The following discussion clarifies the benefit and utility of grounded theory methods in qualitative research. Strauss (1990) describes the grounded theory approach to qualitative data as operating "without any particular commitment to specific kinds of data, lines of research, or theoretical interest….it is a style of doing qualitative research that includes a number of distinct features, such as theoretical sampling, and certain methodological guidelines, such as making constant comparisons and use of coding paradigm, to ensure conceptual development and density."

Grounded theory is a method consisting of "systematic, yet flexible guidelines, for collecting and analyzing data to construct theories 'grounded' in the data themselves" (Charmaz, 2007). It starts with the data and uses methods like memo writing, data coding, theoretical sampling, comparisons, theoretical sorting, theoretical saturation, and integration of the theory (Strauss, 1990).

The concept of constructivist grounded theory links grounded theory methodology and interpretative research by focusing on the phenomena of the study and seeing "both data and analysis as created from shared experiences and relationship with participants" (Charmaz, 2007). The natural extension of constructivist grounded theory is "learning how, when, and to what extent the studied experience is embedded in larger and, often, hidden positions, networks, situations, and relationships" (Charmaz, 2007).

Finally, Strauss (1990) lays down important prerequisites for the best use of qualitative grounded theory research methods. These methods work best where the researcher has to: deal with diverse materials that provide vital data; develop effective theory at various levels; ground the theory in the collected data so that the theory development is not tentative; and research complex social phenomena.

Multiple Case Study Approach

Finally, this is a multi-case study. A case study is defined as "an empirical enquiry that investigates a contemporary phenomenon within its real life context, especially when boundaries between phenomenon and context are not clearly evident" (Yin, 2003). Case studies answer the 'how' and 'why' questions. They are essentially explanatory studies that can be sub-divided into exploratory and descriptive works (Yin, 2003).

Understanding the phenomenon of stakeholder management requires a deeper understanding and a comprehensive study of stakeholder management dynamics as negotiated by organizations. In other words, the purpose of this work is not to develop statistical generalizations but rather to understand the stakeholder phenomenon and

develop theoretical generalizations. Case study methodology is most suited to achieve these goals (Yin, 2003).

Freeman & Harrison (1999) support the appropriateness of the case study method in studying stakeholder phenomenon. In 1999, a whole volume of Academy of Management Journal (AMJ)[12] was dedicated to empirical studies on stakeholder management. Freeman and Harrison assessed methodological issues within these empirical studies as well as future directions of stakeholder research. In their discussion of theoretical issues in stakeholder theory, the scholars identify the need for theory development in stakeholder theory and suggest that the "first step in theory building here would be to create rich and rigorous cases that could lead us to see the overall stakeholder relationship as a multifaceted, multi-objective, complex phenomenon."

Case studies entail either single or multiple cases. Deciding between these options is important in reflecting the scope and purpose of the study. Single case studies are usually conducted when the case under study is unusual, rare, critical, or revelatory. On the other hand, multiple case studies are conducted to get at more compelling evidence through replication and are more suited to the purpose of analytical generalizations (Yin, 2003). Our choice of multiple case study method allows this project to develop more compelling evidence and analytical generalizations by studying the same phenomenon in different organizations.

In multiple case studies the choice of cases must be done with the utmost care. Multiple case selections follow two basic logics: literal replication; and theoretical replication (Yin, 2003). In literal replication different cases predict the same results, while in theoretical replication contrasting results are predicted but explained away in

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[12] AMJ, Vol. 42, No. 5 (1999)

reasoning. Theoretical replication processes begin by choosing a few cases to get the same results, then--based on theoretical variation--choosing cases that provide different but explainable results. Since our project goals involve understanding an identical phenomenon in different organizations, the logic of literal replication was followed. Various organizations were chosen that had a written, laid out, and clear proactive stakeholder management policy. The only difference between the cases is the size of the organizations, which we will see, connects with variation in the structures and methods used by these organizations to achieve their goals of proactive stakeholder management.

The unit of analysis in a case study determines whether the case study is *embedded* or *holistic* (Yin, 2003). In embedded case studies the unit of analysis could be the organization as a whole at the highest level, individuals working in the organization at the lowest, and linked units within the organization that exist between these two levels. Holistic studies, on the other hand, look at organizations as a whole. Our study is more like an embedded multiple case study. The analysis of stakeholder strategy occurs at the level of the organization, but because this study is interested in the views of various organizational stakeholders, it analyzes employee views and assessments of their organizations. Furthermore, this study collects data related to organizational strategy from outside stakeholders, adding another dimension to the embedded case study design making this work more complex than a simple multiple case study.

The cases selected in this study are organizations that vary in size but all share an avowed policy towards creating proactive stakeholder relationships. The studied organizations were chosen to reveal compelling evidence relating to the methods of proactive stakeholder management rather than assessing variations in stakeholder

management. Due to differences in organizations' sizes, we do encounter variations, yet we find similar and significant overall patterns among all of them.

Summary

In sum, the purpose of this work is to understand a complex organizational strategy- i.e. stakeholder management. Stakeholder theory is a systemic concept in which effects and implications of organizational strategy are influenced by numerous factors, relationships, interactions, perceptions, and positions. The actual understanding or the 'truth' lies somewhere hidden between larger organizational contexts and individual interactions. The complexity of the phenomenon requires us to understand different levels of interaction, relationships, and networks and eventually draw a thick description of reality. This study's interpretative, inductive, and multiple case study design allows us to achieve a thick description. Inductive research is also based on the main objective of the research, which was exploratory, evaluative, and interpretative (Schutt, 2006).

Finally, based on our assessment of the existing stakeholder literature, there is a need for theory development in stakeholder theory. Therefore, our study requires an inductive data driven approach that will help us refine questions and contribute to theory building. Qualitative research with its methodologies like intensive interviewing, participant observation, and field studies can serve these purposes most adequately.

Research Setting

Our organization sample selection strategy supports our desire to understand the practice of proactive stakeholder management. As discussed, organizations were selected on the logic of literal replication in order to predict similar results and understand

common proactive stakeholder strategy. To achieve this purpose, only declared proactive stakeholder organizations were chosen.

This work consists of the following six case studies representing different industries: Johnson & Johnson (pharmaceutical)-with a specific focus on one of its subsidiaries-, Dansko & Green Shirts (shoes and green t-shirt manufacturing), Give Something Back (online office goods supplies), Untours (tour guiding), and King Arthur Flour (flour and baking goods manufacturing and supplies). The size of the organizations includes one huge multi-national to three-medium-sized national level firms, and two small local businesses.

How did we assess the proactive stance of these firms? In the case of J&J, we looked at its 60 year-old mission statement, which lists its stakeholders from most important to least as: customers, employees, community, and shareholders. As any firm can attest, a proactive stakeholder leaning organization in theory might actually be reactive in practice. To verify the consistency between the theory and practice of proactive stakeholder management, we used literature and news reports on J&J and for its specific subsidiary that is studied in detail.

In case of the medium and small sized organizations, proactive stakeholder strategy was assessed on the basis that these firms are members of the B-Lab and are B-Corporations[13]. To become B-Corporations, these organizations have to amend their charters to assert that they will be stakeholder firms and act accordingly.

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[13] B-Lab is an NGO that rates business organizations based on several dimensions of Corporate Social Responsibility and stakeholder orientation. B-Corporations are its full members. A detailed discussion on B-Lab is part of Chapter 5.

In addition to the six primary case studies, there is also a secondary case study belonging to the pharmaceutical giant J&J: Tibotec (TT). It is one of the multi-national company's 230 subsidiaries. J&J is a highly decentralized organization and its subsidiaries enjoy a high level of autonomy. Initially, most interviews were conducted at the J&J corporate headquarters in New Brunswick. As the research progressed, however, it became evident that to assess the practical manifestations of J&J's proactive stakeholder strategy it would be necessary to include one of its subsidiaries and focus in detail on that subsidiary. All the subsidiaries of the organization cannot be assessed.

A major challenge to researching these organizations was gaining access to them. In this regard, Prof. Charles Heckscher helped guide the study by providing initial contacts at J&J and B-Lab. In the case of B-Lab, our initial entry was followed by introductory emails to several of its member organizations. Eventually, five of the contacted organizations agreed to participate in this research.

Data Collection

Difficulties in Data Collection

Data gathering for this study presented formidable challenges, some which were inherent to qualitative studies and others that were more germane to this particular research and its design.

In qualitative interpretative studies, the main purpose is to collect rich and sufficient data so as to get a more comprehensive understanding of the phenomenon under observation. To achieve the richer understandings that qualitative studies are well-suited for, it is necessary to follow some basic principles: collect adequate background

data on the phenomenon and, if required, on the organizations; sample and interview a wide enough range of individuals to ensure that all perspectives and facets of the phenomenon are sufficiently represented; collect data on multiple views of the same issues; and assess the type of comparisons that can be made between the data and how these comparisons help generate new ideas (Charmaz, 2007).

Before entering an organization, we collected as much information as possible on the researched firms. These data came from organizational websites, press releases, and any magazine, newspaper, or academic article written about the firm. This approach gave us an idea of the structure and culture of the studied organizations before we entered them, producing better and more informed queries and questions in the interviews.

Interview and sampling techniques will be discussed later in this section, suffice here to say that extra efforts were made to gather information from a variety of sources in order to get a complete picture covering all aspects of proactive stakeholder management. Finally, due to this work involving six separate case studies, there was adequate opportunity to make comparisons between these organizations in order to add value to the analysis. Our comparisons were "intra" as well as "inter" through comparisons of interviewees belonging to various hierarchical divisions within the organizations.

Specific data gathering complexities emerged from the actual design of this study as well as the lack of precedent for this type of work in stakeholder theory. Research in stakeholder theory has been dominated by quantitative studies. Of the few qualitative studies on stakeholder theory – most have been quantitative – none has analyzed

proactive stakeholder management in a holistic social context until now. This work, as already discussed, is a qualitative interpretative multiple case study that looks at proactive stakeholder phenomenon in its social context. Based on these research objectives the questions that this work tackles are exploratory and descriptive. Therefore, having no similar studies to model presented the challenge of creating a methodology from scratch. The experience was valuable but simultaneously painstaking as there were no tested and reliable methodological techniques. Practically, the challenge involved getting access to six firms and their stakeholders. This exploratory and descriptive work made it necessary to gather information from varied and wide ranging resources.

Another complexity of the study involved selecting the level of analysis, which sets the scope of the whole study. We have already discussed that this work is an embedded versus holistic study, and there are several possible units and levels of analyses. Researchers can simultaneously study the: whole organization, top management, employees, middle management, and other linked units within the organization. Selecting a level of analysis was further complicated by the reality of stakeholders existing both within and outside their organizations. Gathering data from internal stakeholders was not difficult, but gathering data from external stakeholders required a time consuming process of reaching out to additional units of analysis.

Finally, collection of data in a qualitative research is a long process. Researchers get their initial data and then analyze it to decide how and from where to get their additional data. If during this period things happen that raise alternative patterns or give non-conforming evidence then a good researcher has to go back to the drawing board and assess sources of relevant information. For example, in J&J's case the recent Tylenol

incident presented non-conforming evidence. To resolve the issue we went back to our resources and decided to contact two interviewees to get their views on what went wrong in the recent scandal. These interviewees were shortlisted due to their pro-J&J Credo views, expressed in earlier interviews. The whole exercise brings out a difficulty in qualitative research as any alternative pattern can lead to analytical revisions and collection of additional data.

Finally, to theoretically develop this field, it was necessary to gather immense amounts of data from a variety of sources, sift them, and analyze them. Each step presented challenges discussed in the Data Analysis section.

Interviews and Selection of Interviewees

For the six primary organizations, 43 in-depth interviews were conducted at five research sites. Additionally, five interviews were conducted with participants from four stakeholder organizations that interact with the primary organizations. Two interviewees were contacted twice for additional information. One interview was jointly conducted by the researcher and Prof. Charles Heckscher at J&J headquarters. Interviews averaged 40 minutes and ranged from 20 minutes to an hour. In most cases interviews with higher management and owners of the organizations lasted longer than interviews with lower management and employees. Several interviewees were also asked supplementary questions via telephone or email to clarify points or to gather additional information. The interviews produced almost 500 pages of transcription.

While this analysis focuses on the six primary organizations, we use interviews from secondary organizations to enrich our understanding of stakeholder processes in the

primary firms. Managers at different levels were interviewed, especially managers who decide policy and interact directly with stakeholders. We created a case study database for the 50 main and secondary interviews (Appendix I) giving basic information about the firms and number of interviews conducted, and a sampling frame providing details about the demographics of the interviewees (Appendix II). Last, we produced a list of the documents we used to obtain additional information on the firms (Appendix III).

Qualitative interview sampling presents a challenge to our attempts to represent the population. In most cases the population is too big and it is unrealistic to conduct large numbers of in-depth interviews. Since this study is multi-level and diverse with a goal of learning both organizational and individual assessments of stakeholder processes, sampling decisions become even more complex.

We use descriptive data about the organizations and their policies to determine the appropriate levels and number of managers for initial interviews. Our initial sample included: varying levels of organizational representatives; varying levels of stakeholder representatives; individuals who cross boundaries and interact with stakeholders or organizations (e.g. point-persons within each primary organization and also within stakeholder organizations if they are organized), and between stakeholders. Our initial sampling provides the starting point for subsequent theoretical sampling.

Theoretical sampling differs from sampling designed to deal with initial research questions, reflect population distributions, find negative cases and achieve data saturation (Charmaz, 2007). It is defined as,

> "Theoretical sampling means seeking pertinent data to develop your emerging *theory*[14]. The main purpose of theoretical sampling is to elaborate and refine the categories constituting your theory. You conduct theoretical sampling by sampling to develop properties of your category(ies) until no new properties emerge."
>
> <div align="right">(Charmaz, 2007, page 96)</div>

Theoretical sampling is used to develop theoretical and conceptual generalizations. It suits qualitative, iterative work and our goal of stakeholder theory development. Initial data collection is based on tentative research ideas, but once these data are collected and analyzed, the researcher refines his questions and engages in additional stages of data collection using a broader logic of following insights from the initial data. This technique allows researchers to identify and refine new theoretical categories through iterative collection of pertinent data (Charmaz, 2007).

Our interviews followed Human Subject Protection protocol. We obtained consent to participate from all interviewees. Most interviews were completed in face-to-face meetings but some were conducted over the phone. In face-to-face interviews the interviewees were asked to sign a consent form (Appendix IV). In the case of telephone interviews, interviewees were asked for verbal consent and were emailed scanned consent forms, which were signed and emailed or mailed back. The interviewees were assured that all disclosures would remain anonymous in the research and that their names would be anonymous in all quotes and analysis

All but two interviews were voice recorded with permission of the interviewees. We took handwritten notes to document the two non-recorded interviews. We used two simultaneous recording methods for face-to-face interviews: a digital recorder, and a backup computer recording via Microsoft OneNote software. For telephone interviews, a

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[14] Italics in the original

Dictaphone and special recording device directly recorded interviews onto micro cassettes.

Qualitative interview transcription is a vital, laborious, and time-consuming process. Researchers are encouraged to transcribe their own interviews because the interviewer can then note and record changes in tone and mannerism during the interview. Use of professional transcribers may compromise the close link between the researcher and transcription of significant non-verbal cues. If the researcher must transcribe a large quantity of long interviews, however, the benefit of self-transcription is overshadowed by the time expended.

This research utilizes an intermediary transcription approach. OneNote software allowed us to record comments on a document during voice recording. Researchers can go back to these typed comments to click on and hear the striking portions of the interview. We used professional transcribers but the close link with the data was maintained through these OneNote comments typed during the interviews.

The interviews were relatively unstructured. While we maintained enough structure to tap relevant research topics, our main strategy was to open a discussion with the interviewee and follow leads as the interviewee expressed his or her views. We created a master interview guide based on our research objectives (Appendix V), but produced rigorous individual interview guides for most interviewees (some participants did not require a separate interview guide because they worked in the same organization at similar levels of administration).

In addition to interviews and site visits, we used several sources of archival data, including: organizational documents like annual reports, employee handbooks, and policy memos and manuals; books and articles written by the owners and founders of these organizations; newspaper reports; journal articles; former case studies about some of the organizations; and other reports and informational data that shed light on the organizations.

Data Analysis

Data Analysis in a Qualitative Study

Qualitative data analysis is an iterative process that uses the initial theoretical framework to guide collection and coding of initial data. This step leads to refinement of questions, additional data collection, more focused coding, the pursuit of more specific information through theoretical sampling, and finally, thematic organization leading to a first written draft (Charmaz, 2007). Through this process, one can reflexively collect, understand, and categorize data to confirm, refute, or refine the theoretical framework.

Miles and Huberman (1984) argue that analysis involves concurrent processes of data reduction, data display, and conclusion drawing or verification. They state that data reduction is "the process of selecting, focusing, simplifying, abstracting, and transforming the 'raw' data…..data reduction is a form of analysis that sharpens, sorts, focuses, discards, and organizes data in such a way that 'final' conclusions can be drawn and verified." This process occurs from the very beginning to end of the research project. Data display is an "organized assembly of information that permits conclusion drawing and action taking" (Miles & Huberman, 1984). Here researchers create tables and charts to make sense out of large amounts of written and transcribed data. During conclusion

drawing/verification, the researcher tries to develop relevant meanings by "noting

regularities, patterns, explanations, possible configurations, causal flows, and

propositions" (Miles & Huberman, 1984). These processes are interactive and cyclical,

and researchers move through the three analytical activities during each additional

process/stage of data collection (Figure 4.1) until a complete picture emerges.

Figure 4.1: Interactive Model of Data Analysis
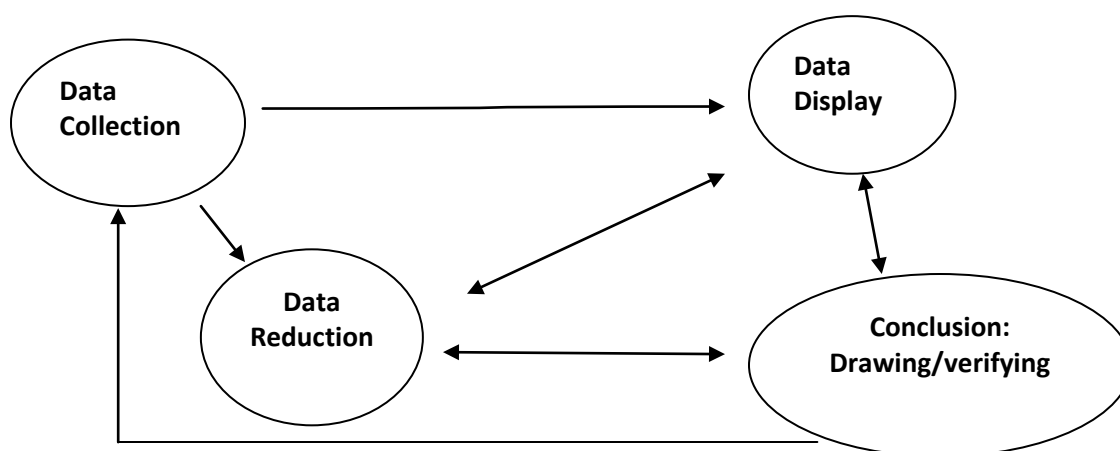
Coding and Memo Writing

Coding and memo-writing serve as pivotal techniques for qualitative data analysis

and writing. Miles & Huberman (1984) define codes as, "an abbreviation or symbol

applied to a segment of words-most often a sentence or paragraph of transcribed field

notes-in order to *classify* the words. Codes are *categories*. They usually derive from

research questions, hypotheses, key concepts, or important themes. They are *retrieval* and

organizing devices[15] that allow the analyst to spot quickly, pull out, then cluster all the

segments relating to a particular question, hypothesis, concept, or theme." Charmaz

(2007) similarly argues, "Coding means categorizing segments of data with a short name

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[15] All Italics in the original

that simultaneously summarizes and accounts for each piece of data. Your codes show how you select, separate, and sort data to begin an analytical accounting of them."

Coding processes arrange data then create themes for analysis. In other words the coding process provides the analytical framework of a research project or "generates the bones of your analysis" (Charmaz, 2007). How do we develop coding categories? Since grounded theory methods use broad categories based on research questions but produce sub-categories and new categories as data are transcribed and analyzed, codes are data-generated rather than preconceived, creating "the pivotal link between collecting data and developing an emerging theory to explain these data" (Charmaz, 2007).

Charmaz (2007) describes four coding stages: initial, focused, axial, and theoretical. In the initial stage the researcher uses word-by-word, line-by-line, and incident-to-incident coding while staying close to the data and attempting to code words that reflect some type of action. During initial coding, the researcher begins a general thematic analysis of the data, keeps the codes simple, and remains open to new themes for future data collection. The subsequent stage, focused coding, "requires decisions about which initial codes make the most analytic sense to categorize your data incisively and completely" (Charmaz, 2007) and the researcher looks for significant themes and categories to understand and analyze data. Axial coding "relates categories to subcategories, specifies the properties and dimensions of a category, and reassembles the data you have fractured during initial coding to give coherence to the emerging analysis" (Charmaz, 2007). Theoretical coding looks at relationships between categories created in the focused coding.

This study generally follows the above coding stages. Our research questions informed the construction of major interview questions and analytic categories. For example, our interest in the process of stakeholder recognition by organizations and managers led us to ask questions like: Who are your stakeholders? How do you recognize them in your daily routine? Do you have an *a priori* list of stakeholders or do they change with changing circumstances and business and environmental conditions? The data from these questions were coded line by line and deconstructed, but then were organized into major categories via focused coding. This stage allowed us to recognize two new salient features of stakeholders were emerging- organization on the part of stakeholders and stakeholder value added contribution to organizational decision-making. These initial results and categories prompted the researcher to ask managers more specific questions about the effects of organization and value added decision-making on group prospects for becoming stakeholders.

We used axial and theoretical coding to create some theoretical themes and sub-categories and to link them with other major themes. For example, the issue of trust was not part of the initial theoretical construct or research questions, but through data collection and initial and focused coding, we learned the importance of trust in proactive stakeholder relations. We created the additional category and sub-categories of trust, and were able to establish a link between proactive stakeholder management and the need for trust-building practices.

Memo-writing serves as a "pivotal intermediate step between data collection and writing drafts of papers….memo writing constitutes a crucial method in grounded theory because it prompts you to analyze your data and codes early in the research process"

(Charmaz, 2007). From the beginning of the coding process to the beginning of the formal writing stage, we used memo-writing to initiate analytical discussions based on preliminary understanding of the coded data. We were able to summarize large quantities of coded data and develop emergent analytical and theoretical categories. We used memos to clarify theoretical propositions and identify new areas of inquiry. Finally, memos facilitated our attempts to link theoretical constructs.

Use of the Software NVIVO

This study uses NVIVO to organize and analyze data. NVIVO is qualitative-specific software developed by QSR International, an Australian company. It is not a smart software that can perform the actual analysis, but it provides useful and time-conserving tools for data storage, organization and analysis.

NVIVO can import and store a wide variety of data sources like: word documents, excel sheets, pictures, videos, digital voice recordings, and several types of databases. You can store all your data in the "internal" folder, but non-importable data can still be stored as an external source, through a link allowing access to that source. All transcribed interviews, field notes, and digital voice recordings were imported into the software and stored in different interviewee "cases."

NVIVO saves time and provides excellent results in the painstaking and slow data-coding process. NVIVO provides "Tree Nodes" and "Sub Nodes," (e.g. the main coding categories and subsequent sub-categories). For example, culture is established as a Tree Node, while creation of culture, maintenance of culture, perpetuation of culture, and types of culture become Sub Nodes. With these nodes, you can open a source-for

example a transcribed interview- in a separate window to work with two sections at the same time i.e. the source and the Tree and Sub Nodes. This software allows you to sort excerpts from the transcribed source into appropriate Tree or Sub Nodes i.e. your coded categories, saving time without compromising thoroughness in coding. NVIVO allows facile coding not only of documents, but also videos, pictures, and audio files.

After coding, you can use the Nodes folder to read excerpts from different sources and access links to the original source to view data occurring before or after the coded lines. You can also add important annotations, memos, and summaries. The annotations are stored with the main source while the memos are stored in the source section in the folder for memos. Thus different stages of analysis are well demarcated and arranged.

Finally, NVIVO provides analytical tools for testing data interpretations or developing new ideas. We quickly located data about significant terms using the text word search and word frequency search. Sometimes these items were not part of the original coding, and, using the text search, we were able to ascertain the occurrence of relevant terms in all sources, annotations, and memos and save the terms as separate nodes.

We used the Matrix search tool to assess relationships between different nodes, sources, cases, or other stored material. For example, if the researcher wants to see how managers from different firms address employee autonomy, he can run a matrix search and organize all the managers' perspectives on autonomy into a separate node.

Finally, we used NVIVO clustering to group our sources based on the similarity of words and concepts expressed in the interviews. For example, this study utilized clustering to group the manager and employee beliefs about who their organizational stakeholders are. It was through this query that the researcher found that based on the use of terms and words these two groups cluster differently. Further reading of the data revealed that in many cases their views about who were their stakeholders varied.

Quality of Research

In qualitative case studies, issues of objectivity produce the most formidable challenge to robust analysis. To maintain objectivity, the researcher must avoid "cherry picking" during data representation. Ethnographic and qualitative case study researchers may "go native," becoming so involved with the subjects that they develop biased opinions. The job of the researcher is to strive for objectivity by: reporting the data as it is, reporting and analyzing subjects' actions rather than justifying them, looking for outliers, and following disconfirming evidence. As Yin (2003) puts it, "because a research design is supposed to represent a logical set of statements, you also can judge the quality of any given design according to certain logical tests." In this section we discuss our use of tests to assess and maintain construct validity, reliability, internal validity, external validity and other measures, a summary of which is provided in Table 4.1.

Preconceptions and "Going Native"

Before designing this study, we read comprehensive literature on stakeholder management theory in order to form initial perspectives about the phenomenon. Once we chose specific organizations for analysis, we collected and studied background

information on them. Strong understanding of the organizations allowed us to develop

informed interview questions and recognize and follow good leads.

This strategy, however, produces preconceptions about the organizations and the

phenomenon under study that might interfere with achieving robust insights (NSF, 2004).

Also, since researchers operate based on their interests, experiences, training, education,

preconceptions, and biases, there is likelihood that preconceived ideas will shape

analysis. To resolve these issues, we: first, maintained an attitude that questioned

Table 4.1: Criteria for High Quality Case studies

Tests	Case Study Strategies
Preconceptions and Going Native	• Initial information was obtained to get a better idea about the organizations • Biases and preconceptions were questioned • Reflexive attitude was maintained • Competing explanations were considered • Disconfirming evidence was sought and followed in interviews
Construct Validity	• Multiple Sources of data • Review by the key informants
Internal Validity	• Pattern Matching • Explanation Building
External Validity	• Logic of replication was used in multiple case studies
Reliability	• A case study database was created • Procedures were documented and explained

(Main structure from Yin, 2000: Page 34)

preconceptions and biases; second, maintained a self-reflexive attitude during data

interpretation and analysis; third, considered competing explanations and interpretations;

and fourth, structured interviews to gather disconfirming evidence (NSF, 2004).

One major issue with qualitative studies, especially ethnographies, is that the researchers can become so immersed in their data and subjects that they lose objectivity. During ethnographic research, one is advised to simultaneously achieve immersion in the data and also remain an "outsider to the worlds of those studied" (Emerson, Fretz, & Shaw, 1995). In qualitative case studies, researchers' beliefs and preferences can compromise objectivity and lead to biases in favor of the phenomenon or the organizations under observation. Throughout the study, we maintained objectivity by staying close to the data when developing interpretations and inferring conclusions.

Construct Validity

Construct validity becomes a major concern during case study research because researchers may fall into the trap of subjective data collection if they fail to develop adequate and operational sets of measures (Yin, 2003). In order to satisfy the requirements of construct validity, Yin (2003) advises researchers to be specific when they define the phenomenon or change under study, and demonstrate that the measures they select adequately represent that phenomenon. To satisfy these demands, we collected data from multiple sources to establish the authenticity of measures. Moreover, upon completion of the dissertation, we will send relevant sections to key informants for their review and assessment.

Internal Validity

Internal validity denotes confidence in the veracity of causal relationships between variables (Yin, 2003). Though this study is primarily exploratory and descriptive in nature, it also contains an explanatory dimension. We try to explain a causal relationship through our argument that proactive stakeholder organizations will develop

mutually useful relationships based on transparency, trust, engagement, and communication.

To increase internal validity, we follow processes of pattern matching, explanation building, and addressing rival explanations (Yin, 2003). In pattern matching empirically-based patterns are compared and matched with predicted patterns as well as patterns based on alternative predictions. In this study we have found several outcomes: relational benefits, business benefits, organizational adaptability, organizational learning, relationship between levels of organizational stakeholder orientation and levels of stakeholder engagement, and viability of proactive stakeholder strategy. We have found support for all of the above outcomes and have found minimal presence of alternative patterns.

To accomplish explanation building, we followed the iterative process outlined by Yin (2003) and worked through multiple stages of explanations and theoretical statements about the case studies. We made an initial theoretical statement about proactive stakeholder management and then compared that statement with initial results from the case studies. This comparison led to changes and revisions in the initial theoretical statement, which were then compared with results from other case studies, leading to further refinement of the theoretical statement. Eventually, as will be discussed in Chapter 9, based on our data we further refine our theoretical model that was in an initial stage discussed in Chapter 2.

Finally, rival explanations were also addressed. For example, in J&J's case towards the end of this work the recent Tylenol incident happened. This incident was an

alternative explanation or pattern. Additional information was collected to understand the implication of this incident on our findings. In the end it was found that it was rather early to precisely analyze what happened but this exercise did add to our understanding of the difficulties of implementing a proactive stakeholder strategy, as discussed in Chapter 8.

External Validity

External validity establishes the domain to which the case study can be generalized. While survey research is used to establish statistical generalization, case studies are used to establish analytical generalization (Yin, 2003). To achieve external validity, we follow replication logic, which tests theory by replicating the methods and results across more than one case study. The patterns from one case study were compared with the patterns of other case studies to tease out theoretical generalizations with external validity.

Reliability

Reliability refers to the procedure of case study research. Reliability means that if subsequent researchers follow the methods, design, and procedures of the earlier researchers, they will arrive at the same findings if they do the same case study. Therefore, reliability in case studies does not apply to replication of methods to different case studies. To facilitate future reliability assessments, we created a case study database and carefully documented our research procedures.

Chapter 5: Introduction to Organizations

"Young people today will have to learn organizations the way their forefathers learned farming"

Peter Drucker[16]

In recent decades, business and industry have undergone tremendous changes. Today's post-industrial age is characterized by knowledge workers, increased knowledge work, collaborative team based production processes, and shifting competition from mass production to competition based on differentiation, customer solutions and innovation (Heckscher, 2007). To succeed in these emergent and sometimes volatile conditions, business organizations today must be resilient and adaptive.

Being adaptive, in today's environment, is a difficult feat to achieve. The intricacies of business environment have increase manifold due to increasing influence of an intrusive environment representing several groups and entities. As economic actors are less independent than in earlier periods of industrial growth, entities or stakeholders play a more crucial role today. These stakeholders represent various interests and organizations stand to gain by identifying these interests as well as the dynamics of stakeholder interactions in order to formulate better organizational strategies.

An important question here is that aren't all organizations stakeholder organizations as all of them deal with several stakeholders like employees, customers, shareholders, government agencies, unions, and special interest groups. This work argues that in today's environment it is not enough for organizations to be just interacting with stakeholders in either a reactive or a defensive way. We argue that in order to successfully cope with the current unpredictable environment and to fully benefit from

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[16] Scott, Richard. 1998.*Organizations: Rational, Natural, and Open Systems* (4th Edition), Prentice Hall, New Jersey, pp1.

stakeholder strategy organizations need to be proactively involved in stakeholder management. [17]

Based on the above argument central to this work is an exploration of proactive stakeholder management beginning with some foundational questions: What are the features of proactive stakeholder organizations? How are proactive stakeholder organizations created? What factors are required in the operation of such organizations? What are the mechanisms of stakeholder management? And, what are the benefits? The answers to these large questions are complex and cannot be comprehensively explained through this work alone, however, these questions fuel the primary task of this project: to theoretically develop the complexities of stakeholder theory in order to lay a basis for broader studies.

To answer these questions, this chapter will address six comprehensive case studies and one supplementary case study. An important question is that on what basis the organizations for this study were selected? The answer lies in the basic argument of this work. We argue that in order to reap benefits of stakeholder management organizations need to have a proactive stakeholder orientation. Organizations in our sample were selected based on the criterion that all of them, based on their mission statements, charters, and organizational purposes, were declared proactively stakeholder organizations. Finally, the selection was also made keeping in view the sizes of these firms. We have one large multinational, three medium sized, and two small firms in our sample. The purpose was to assess structural and behavioral similarities and dissimilarities across proactively stakeholder organizations with different sizes.

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[17] The categories of reactive, defensive, and proactive have been discussed in Chapter 2.

In this chapter, there will be a brief overview of the basic facts, histories, businesses, philosophies, stakeholder orientations, strategies and structures that characterize each organization. This chapter aims to provide the readers with a launching pad that will be helpful in understanding the analysis of these organizations in the following chapters. We will begin with discussing the term "organization" and how is it interpreted in this work. Then we will move on to discussing the basics of our case studies.

What We mean by 'Organization'

Before delving into our sample cases, however, it is important to understand what organizations mean in this work, and how theoretical considerations related to the complex phenomenon of organizations led to methodological decisions in collecting data.

Henri Fayol in his most celebrated work "*General and Industrial Management*" (1949), while enumerating his principles of management, uses the term "*Corps Social*" or "*body Corporate*" for corporations. This term conveyed two assumptions Fayol had regarding corporations: that the corporation is a natural phenomenon; and that there is a difference between organizational structures and processes. In this work, somewhat following Fayol, for all case studies generally the term "organization" has been used. The term organization not only conveys the two assumptions by Fayol but additionally it also conveys a sense of a systemic existence and interactive processes within the organization, and with its external environment.

One of the most important questions in studying organizations is the level of analysis. Organizations can be understood and studied at various levels: the level of actor interactions and behaviors within an organization; the structures and social processes of

an organization; and the study of an organization as a distinct entity, representing all its internal components, in the process of negotiating with its environment (Scott, 1998). Because the purpose of this work is to understand the phenomenon of stakeholder management by organizations within its social and organizational context, (i.e., stakeholders are not just within the organization but they also exist outside the organization and there is interaction, mutual influence and interdependence between the firms and its various stakeholders) the level of analysis had to be quite broad and expanded beyond the isolated firm itself.

In this work, organizations are considered natural-open systems (Scott, 1998). That is, organizations are collectivities comprising several participants pursuing their interests that sometimes collides with or supports other participants. As mentioned, these organizations also interact with various external actors to perform and achieve interdependent goals and activities, which involve shifting coalitions between the organizations and various entities in their environment. The above simply means that organizations are, "not fortresses, impervious of the buffeting or the blessing of their environments…….organizations are not wind tunnels, completely open and responsive to every perturbation of their context" (Scott, 1998). They are organisms that interact for their being with the environment.

If the natural-open system concept is valid and appropriate, it is important to define what the organizational boundaries are. Without distinct boundaries, it would be difficult to ascertain differences between organizations, and from an organizational perspective, it would become nearly impossible to maintain any organizational structure, culture, or strategy. In this work, boundaries are based on: their respective industries;

environmental actors with which they interact; and most importantly, a distinct culture and organizational strategy. Therefore, we will address organizational policies and structures that help create a proactive stakeholder organization as well as how individual employees and managers react to these policies and structures. Additionally, firms will be considered as distinct entities surviving and evolving within their respective environments.

Studied Organizations

This chapter, as already pointed out, will focus on brief overviews of the history, cultures, strategies and structures that characterize each organization, and their mission and philosophy. We will begin with Johnson & Johnson, which is the largest organization in our sample and then in the next two sections we will cover medium and small size organizations.

Johnson & Johnson

Because of its relatively large size and public ownership, Johnson and Johnson (J&J) contrasts from the other case studies in this study. In the smaller firms, as we will discuss, owners and top management claim that being privately owned allows them the freedom to allocate funds to socially responsible causes without the need to justify such actions to shareholders, thereby enhancing their ability to achieve stakeholder recognition. J&J, therefore, presents a different picture: that of a company that says it is a proactive stakeholder firm that is also a publicly owned successful global multi-national company operating in an extremely competitive industry.

It was not possible to conduct interviews in all areas of this expansive company; therefore, several interviews were conducted at the J&J headquarters to get a very general

and overall picture of the organization. In addition, interviews were held at one of J&J's subsidiaries, Tibotec Therapeutics (TT). This served the purpose of evaluating to what extent J&J's overall goals, strategies, and stakeholder efforts at the corporate level were reflected in only one of its smaller holding companies. Secondly, comparing the two helps us to better understand how J&J's stakeholder precepts are implemented in one of its subsidiaries. Last, it helps us understand how stakeholder strategy works, what are its dynamics, and most importantly, its benefits. A general overview of corporate J&J and TT will be dealt with in two separate sections below.

Corporate Johnson & Johnson

Johnson and Johnson is one of the big players in the pharmaceutical industry. It is publically owned and has a largely decentralized business structure containing nearly 250 subsidiaries, and 114,000 employees in 57 countries[18]. J&J is divided into three main segments: Consumer Health Care (includes a broad range of consumer health and personal care products); Medical Devices and Diagnostics (focuses on technology and services in several medical fields); and Pharmaceuticals (focuses on medicines and medical needs in several therapeutic areas)[19]. Even with a worldwide recession J&J has shown earnings growth in 2010 and sales growth in the first quarter of 2011[20].

As a large multinational J&J does not have a strong corporate center that drives business planning and subsidiaries are fairly independent regarding the running of their operations. One of J&J's top managers explains that,

> "People are empowered very early in their careers to be entrepreneurial whether it's in a country or a franchise."

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[18] http://www.jnj.com/connect/about-jnj/company-structure/ on May 9th, 2011
[19] *ibid*
[20] J&J Annual Reports on May 9th, 2011: http://www.investor.jnj.com/releasedetail.cfm?ReleaseID=545326

Though decentralized, the subsidiaries are closely linked with the main corporate J&J through its credo and mission-based strategy. This credo-based strategy is one of the bonding forces of this complex organization. This sentiment is expressed by a top J&J manager in these words:

> "What links us together is our credo we are out there being entrepreneurial we have to remind us that we are bound to our common culture that is driven by the patients that use our products the physicians that also use our products and our responsibility to the employees………..There is a common culture that overlays a very aggressive entrepreneurial spirit."

Further, the subsidiaries are collaborative with one another. One of the managers points out,

> "I am aware of some discussions where our R&D has lent itself to conversations outside of the business development opportunities that we find. In fact there are technologies that we contribute to outside groups…….those kinds of opportunities exist in a decentralized culture."

As with the all case studies in this work, J&J's particular stakeholder strategy is primarily created and supported by its leadership. The Credo that outlines J&J's basic philosophy was created by General Johnson, who represented the second generation of J&J owners, during the Great Depression and WWII, and was amply described in his book titled *"People must live and work together Or Forfeit Freedom (1947)."* Since then, several generations of managers have carried on the credo loyally, which persists today. As pointed out by a senior manager,

> "Bill Weldon, our CEO, and our top management travels around the world, and they actually for any newly promoted VP, they spend two days with them, talking about our credo, and what it means, and their role as senior leaders, and their commitment to live up to the values of our credo. It's a very powerful dialogue and interaction, and those senior leaders make a commitment that they're going to have credo dialogue and discussion with their leaders."

Stakeholder management, though not expressed in these terms, is woven into the fabric of J&J and is very succinctly expressed in J&J Credo. The term, "credo", which outlines a set of principles considered a living document by the owners and top management, has become a sort of "organizational DNA" expressed in what may be called a "value based" business model. As one manager commented,

> "I think its value based business, its business with a conscience ....I think it (J&J) has been very, due to its credo, mindful of its stakeholders not in the same way as Unilever is but in more old fashioned way having your eyes on four different areas of the community, your customers, your employees, and community as well as your stockholders."

The credo was originally written 65 years ago and was incorporated into J&J's mission statement. Historically, it read as a defense or manifesto of capitalism. As pointed out by one senior manager who was well versed in the history of the credo and J&J,

> "During a time when capitalism, during and after the WWII, was under the gun literally and figuratively. The rise of fascism in Europe, the rise of socialism in Europe and here in the US put capitalism on the defensive. Robert Wood Johnson Jr. felt the popularity of the socialist candidates in the US and the success of socialism in Europe and around the world required him to share a point of view and it began with the belief that workers should feel proud about the companies that they work for and that wasn't the case in 1946. He felt strongly that democracies created jobs and dictatorships created armies for the poor. So he felt that we were a reasonable alternative to dictatorships that were rising in Europe and democracies and capitalism offer poor people a way to live."

The credo has four parts and each part expresses J&J's commitment to certain organizational stakeholders. The first responsibility of J&J is to the patient (i.e. the customer), the second and third responsibility is to the community and its employees, and the fourth, and final responsibility, is to its shareholders. In contrast, most large for-profit

organizations list their shareholders as their biggest responsibility. The strategy might

seem upside down, but J&J believes serving their stakeholders in this fashion ultimately

serves all stakeholders, including shareholders, in the long run.

At this point it is pertinent to ask that if the Credo was formulated over 65 years

ago, then how is it relevant to the 21st century? We will discuss this question in the

following chapters but here it is suffice to add that a senior manager compared the credo

to the U.S. Constitution in the following way,

> "Like the US constitution, it gets amended very infrequently but it does get
> updated." Recently, the HR department initiated a "Credo-dialogue" in order to
> reassess the values expressed in the credo. Essentially, it was an exercise in
> which each paragraph of the credo was discussed in light of, "what's relevant in
> today's dynamics?"

As another HR manager puts it,

> "So for example, if you look at one line of the credo, it talks about providing
> employees with safety and security in their jobs….we can provide training, and
> individuals in challenging roles, so that they [employees] can maintain their
> skills….[and] they have the ability to be meaningfully employed, so it's really
> looking at each element of the credo as a management team, and usually it's
> done at more of an operating group level, trying to understand, are we really
> behaving in a credo-based way, do we have a credo-based culture, and as a
> leadership team, how do we need to show up differently? So it's a really a
> reflective process for management."

In the next chapter, we will go into greater detail as to how J&J is a proactive

stakeholder organization as opposed to a reactive or defensive stakeholder firm, but for

now the following discussion should suffice, one senior J&J manager commented,

> "Our primary goal is basically to strengthen the brands and drive the business so
> that eventually you are driving profit but you only do it within the parameters of
> the credo. So, I, many times in board meetings and in large team meetings hear
> the words that this is not consistent with the credo or that is not consistent with
> the credo. So, it is really very much the part of the fabric of how you think about
> business…….. one of the reasons that the corporation is very respected it has

issues. For example, revising the Credo included surveying employees' opinions and incorporating some of their ideas. On a more personal level, employees are treated fairly. J&J might not be the best paymaster, but its flexibility, respect for work-life balance, and employee involvement is rated very high by its employees.

In this framework, looking at its general strategy, J&J's most distinguishing features as a proactive stakeholder organization are not limited to the cognizance of its stakeholders but they are extended to the way it deals with its external and external stakeholders. As a proactive stakeholder organization J&J constantly surveys its environment to recognize its potential and future external stakeholders. Once these external stakeholders are recognized J&J has a corporate strategy and structures to engage these stakeholders in meaningful dialogues on matters of mutual concern. The purpose of the stakeholder involvement and dialogue is to create mutual understanding leading to win-win solutions. Internal stakeholders are considered as an asset and are valued. They are also involved in discussions, and dialogues at various levels of the organization.

Tibotec Therapeutics

Tibotec Therapeutics (TT) was acquired by J&J in 2002. It is a J&J subsidiary with a focus on virology, specializing in HIV and Hepatitis C drugs. TT is a legal entity listed as a division of Centacore/Orthobiotech (two J&J companies that have recently merged) – it is an HIV-specific operating company within J&J, producing two specific HIV products.

TT is a commercial operation that currently has 206 employees and deals with the AIDS market. Generally speaking, TT is the sole J&J holding company that engages in this field.

There are a small number of ancillary products that AIDS patients (e.g., those who suffer from mental illness) may use that are produced by Jenson (another J&J company). Likewise, Aids patients suffering from an infection may use products from OrthoMcNeil (also a J&J company). But for the most part, TT is the company within J&J that concentrates on the commercial side of dealing with the HIV.

Within TT there are two subdivisions: Tibotec and Tibotec Therapeutics. Tibotec, as the R&D side, discovers and develops products. Tibotec Therapeutics is the commercial organization within J&J, which markets and distributes these products.

As mentioned above, Tibotec Therapeutics is a division of Centacore Orthobiotech. But given the rather decentralized structure of J&J, TT maintains an autonomous status as a separate operating company within the pharmaceutical sector of J&J[21]. Thus, in the North American pharmaceutical area TT, as a separate operating company, generally works, where possible, with other J&J companies on common areas. Then there are other areas where TT works separately, maintains its autonomy, and reports back to the overall pharmaceutical sector of J&J, which in turn reports to J&J central headquarters.

TT was originally a Belgian-based company, and the majority of its research facilities continue to be based there. It also has offices in the U.S. and Cork, Ireland.

TT was founded by scientists who had worked for J&J, and was in fact originally a spinoff from an older J&J company in the 1990s. The main reason was that the

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[21] J&J has basic three areas: pharmaceutical area, medical devices area, and consumer products.

founding scientists wanted to create a thorough going research institute, as a senior TT manager noted that the two owners,

> "Were more academically based and they really wanted to create an environment of individual contributions, of thinking outside the box, and they did that exquisitely."

J&J acquired TT when it recognized the need to become involved in the HIV arena. After its acquisition the first TT product under J&J went into market in 2006. The research part of the company carries out clinical trials around the world, and then the other group within the U.S. Tibotec Therapeutics, as the commercial part of the organization, undertakes the distribution, sale, and supply of TT HIV drugs.

The details of how TT engages outside stakeholders will of course be discussed in detail in the chapters that follow. But by way of a short introduction, TT, as a J&J subsidiary, engages with its various external stakeholders most proactively. In the AIDS-medication field its main stakeholders are AIDS patients, doctors and other caregivers, and AIDS activist organizations. TT makes an extra effort to reach out and engage these external groups in the course of its decision-making process regarding new product launches, trials, pricing, and education.

Additionally, TT has also established an office that advocates global health awareness about AIDS. For this purpose, TT created a Pharmaceutical Access program which facilitates nonprofit pricing for HIV medicines in less-developed countries. Just as with J&J's local community work, TT also has effective links within local communities, NGOs, and advocacy groups. As explained by one of its main liaison managers,

> "We have national customers that we interface with, as well as advocacy groups within [the] HIV community that we interact with, so we engage them, we get their thoughts, we get their comments about how we're doing as an

organization, what we can do differently, what are some of their challenges, what are some of their struggles, what can we do differently to help them with those... We also talk directly to patients, but in that case it's only disease awareness so that patients understand their disease."

Mid-Size Organizations

There are six case studies in this work. In the previous section we discussed J&J that is the largest company in the sample. Now we will discuss three medium size firms. But before we get into the details of the three case studies, it is pertinent to write a brief description of B-Lab, which will be mentioned several times in this chapter and which was also instrumental in getting data from five case studies including the two small size organizations.

B-Lab

B-Lab (B stands for Benefit) is a non-profit NGO that wants to "use the power of business to solve social and environmental problems." This overall goal is to be achieved by: creating and assessing businesses on a higher standard of accountability, transparency, environmental performance, and their overall impact on society; and by bringing together like-minded business and amplifying their voice to change the legal environment. It aims at creating new traditions of doing business in the 21st century in which businesses change their bylaws to become stakeholder oriented and socially responsible and create standards that can differentiate between "pretenders from companies that really practice what they preach," as commented by one of B-Lab's researchers. With these high ideals the Lab was founded in 2006 by three businessmen with several years of experience in the private sector. Their main purpose was that they wanted to create a platform for sustainable businesses from where they can have their

voices heard. In the past few decades there has been a tremendous increase in organizations that claim and want to be known as stakeholder oriented and socially responsible. Additionally, a number of different standards related to environment, trade, working conditions, and social standards have also been created. With these standards there has also been an increase in the number of specific certification systems to certify business organizations. But the main issue is that even with all these certifications and standards there is no way to know the overall impact of businesses. Most existing certification programs look at company specific products and not the whole company. B-Lab recognizes this issue and has set up standards and certifications to assess the overall impact of business organizations. Its long-term aim as explained by one of its managers is that,

> "We are hoping that today what you see as the B-rating systems and a set of 215 companies will grow in the next three to five years, as a global impact rating system. There will be a new corporate and hopefully in the 50 states there will be stock exchanges for B corporations …….and in a generation we would create a new sector in the economy around this idea of companies for public purpose."

B-Lab itself is governed by the Standards Advisory Council, an independent board with nine members. These members have expertise in the intended standards like: environment, community, diversity, and employees etc. The board advises in the creation of specific standards and surveys. The standards have undergone changes and the survey itself, available on the B-Lab website, has been changed recently with the new 2.0 Version that has included new industries and added more relevant questions. The way it works is that a firm can take the survey online. The organization first has to meet the performance standard by achieving a passing score which is 80 points out of a total of

200 points. Then that organization has to agree to amend the articles of incorporation within 12 months and to have it be approved by its board to and re-file those amended articles. The main change expected in the new incorporation document is the inclusion of broader stakeholders. B-Lab audits 20% of these organizations to assess compliance.

B-Lab also partners with business associations, individual businesses, policy makers, media, standards partners to change the business standards in states. It aims at creating a legal environment in which managers can be socially responsible and still not get sued by their shareholders.

B-Lab has now more than 6000 users, it has 407 members called B-Corporations that belong to 28 states and 54 different industries with total revenue of $1.91 billion and total investment assets worth $6.8billion[22]. Recently B-Lab has also launched GIIRS, the Global Impact Investment Ratings System, as a new system of assessing business impact. The main purpose of this rating system is that it provides environmental and social ratings to businesses who aim at raising funds from responsible investors. GIIRS has received funding from USAID, Prudential Financial, Rockefeller Foundation, and Deloitte[23]. In short, B-Lab believes that the 21st century involves a move from the shareholder capitalism to stakeholder capitalism where business organizations will do better if they consider the impact of their actions on their various stakeholders.

In this work B-Lab has been instrumental in aiding the author in getting access to five of the six organizations; all five of the case studies are B-Corporations.

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[22] B-Lab Website: http://www.bcorporation.net/index.cfm/fuseaction/content.page/nodeID/dec9e60f-392c-4207-8538-be73be69cf85/externalURL// on October 8th, 2010.
[23] B-Lab Website: http://www.triplepundit.com/2010/10/giirs-announces-25-pioneer-funds-at-socap-2010/ on October 8th, 2010.

Give Something Back

Give Something Back (GSB) is a flourishing independent office supplier headquartered in Oakland, California.   In 1991, the company began with $40,000 from each of its two owners. By 2006, it had generated $25 million[24]. Though not very big, with around 100 employees, GSB mainly services California and the west coast, but it does sell and supply office supplies throughout the United States. Its primary competitors include big-box retailers such as Staples and Office Depot, but it also competes with other smaller independent office supply companies. What differentiates GSB from Staples or Office Depot, however, is a lack of show rooms or stores. Instead, orders are received from customers over the phone or via GSB's website and then shipped.

GSB strategy for competing with much larger competitors has three main components. One, because of the lower overhead costs associated with not storing and maintaining inventory in showrooms and stores and by utilizing just-in-time delivery techniques, GSB can compete with larger companies based on cost. Additionally, it also has a wide enough distribution to get good pricing from its vendors. Second, GSB's small size and flexible delivery system allows the company to focus on more personalized service and quick deliveries. Finally, GSB has created a niche for itself in the larger green office movement. Upon request, GSB audits and advises other offices on making their office buildings greener and on how best to use office space to create a healthier employee environment.

These business features are not entirely unique given GSB's market position, size, and industry. What sets GSB apart from other firms, though, is its B-Corporation

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[24] http://www.inc.com/magazine/20070701/priority-a-new-kind-of-company.html on Sept 13th, 2010

designation, organizational philosophy, and business model.

To join B-Corporation GSB has amended its charter to become a stakeholder organization that is both internally and externally socially responsible. Also, since its inception, GSB has donated almost 75% of its net earnings to non-profit organizations, while the national average is about 1.1%[25]. The impetus to join B-Corporation, donate most of its profits, and operate as a stakeholder organization emanates from its owner. Both owners believe that they do not have the right to the firm's profits and, therefore, receive salaries for their work. One of them commented that,

> "it's not about you getting richer; it's about you having enough for yourself, but at the same time being able to give to others, and help them be comfortable – be as comfortable as you are in this world."

As owners of the company, their salaries are limited to 70% of what a typical 30 million dollar company CEO would make in San Francisco Bay area. They feel that their model of donating profits to the community is not, "an act of generosity." But it is the responsibility of businesses to contribute to the communities in which they operate. In sum, the owners hold a holistic perspective of the relationship between the firm and community.

The owners firmly believe that it is necessary for them to operate as a viable business, because if that was not the case then they would go out of business and they will not be able to serve their many stakeholders, including their employees. Therefore, they follow a different model of business in which they remain economically viable but also serve the community by donating most of their profits.

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[25] https://www.givesomethingback.com/about on Sept 13th, 2010

How can they do it? As a privately owned company, GSB's owners believe they have more flexibility to use their profits in different ways. Profits do not end up in the bank accounts of the owners, who basically get salaries from the company for their work, nor are they distributed to shareholders as GSB is a private company. Rather, profits are returned to the community in the form of donations to a number of NGOs representing many social causes. According to one of its owners, this strategy is not antithetical to having a viable business. He states,

> "Absolutely we have the capability of wealth to expand and grow, so any business can, I believe, manage its profits and business to continue to be for profit to expand and to grow while being very generous in caring about the environment and the community around them."

He further adds,

> "You know there have been situations where the business needs to buy a building, the business needs to buy a truck to continue …… because it is for future growth. So if we have our basic needs met, we can continue to serve our organization and continue to grow."

The main idea is that enough profits are secured to assure the company's success and the rest is donated. For example, GSB did not donate much in 2004 because they purchased their new office building that year.

The uniqueness of the model does not end here. Another important aspect of this model is that socially responsible behavior is stressed at the organizational level and is not imposed on its employees. So then how does GSB foster an environment of social responsibility? Many companies hire people who are environmentally inclined and even offer paid days to work for NGOs, or assess them annually based on their views on social responsibility. Although encouraged, employees at GSB are not supported for

environmentally responsible behavior, nor are they screened or pushed to act in environmentally responsible ways. Primarily, GSB cultivates a competent, competitive, and assertive workforce. Demonstrations of socially responsible behavior by employees are not essential to this end and are not connected to   employee benefits, assessments, or promotions within the organization. According to one of the owners,

> "From the company's point of view, an employee who is engaged in the social mission of the company, but who cannot perform their job adequately, there is no place in this company for that employee."

An important aspect of the culture is GSB's internal and external stakeholder orientation. Employees as internal stakeholders are not only valued but are also involved in decision-making processes within GSB. Not all decisions at all levels involve employees but a lot of important decisions and changes are made with the involvement of employees at different levels. About a year ago the company involved employees in determining the mission statement of the firm. There was always an understanding of what GSB stood for but there was no clearly articulated mission statement. For this purpose employees at all levels opined as to what GSB should stand for and what should be included in its mission statement. The resulting mission statement clearly identifies three main stakeholders: community, customers, and employees.

GSB's main external stakeholders include its suppliers, customers, and the larger community. But the main stakeholder, according to the owners, is the community, "Our community being the principle stakeholder. I mean our goal for establishing the company from the very beginning was to use the company as a vehicle to raise money for the non-profit organizations that are working in the community in a way our competitors don't," one of the owners states. The owners argue that their model does not require any sacrifice

on the part of the employees or their customers as these stakeholders get the best product and service and the employees get the best conditions for work. In short, the business does not suffer while the community is served.

GSB not only claims that it is a stakeholder firm but also involves its stakeholders in deciding where and how to spend the profits in the community. In a lot of companies, these decisions are made and controlled by a few people in the company. GSB surveys opinions of its employees and customers to decide which NGOs will get the donations. According to one of the owners,

> "I can't tell you which communities in Louisiana need the money. I can't tell you which communities in another city I don't live in, where the money needs to go there, and I think that it's really important for you to get the feedback from those people, those communities that are able to say, this is what's needed in our community…..in the end it is our stakeholders who know what, who live and work in their own communities who [they] have a better sense of the needs of their community."

All of the above creates an organizational culture that is stakeholder oriented, philanthropic, generous, professionally driven, and collaborative.

King Arthur Flour

King Arthur Flour is America's oldest flour company. It is an expanding 100% employee owned organization with about 170 employees. Though flour is the main product, KAF also supplies baking products, utensils, and gives baking education at the national level.

The company was named King Arthur Flour in the mid 1990s, but the flour with the brand name "King Arthur Flour" existed prior to that. The company was named after the mythical, romantic figure of King Arthur in order to identify with his attributes of

purity, strength, and goodness, and appropriately the 16,600 square foot timber frame structure headquarter building in Vermont was named "Camelot."

With the above goals in mind, the owners of the company created a firm that stands for good quality, trust, and social responsibility, both internally and externally. The company lineage extends back about 200 years, when it was created in the late 18th Century. In 1820, the Sands brothers bought the company and have remained connected with it until 2004.

The original company grew very large in the 1970s. This expansion became too onerous for the owners to manage. Union and other financial management issues made the company too difficult to handle so the owner sold off a lot of side businesses and reduced staff to just two employees – himself and his wife. Thereupon, the owner also moved from Dartmouth to Norwich, Vermont.

In this way, the owners began to rebuild the company anew and concentrated exclusively on products that they liked. The main product was flour, and that is how the company now known as King Arthur Flour became the core around which all other products revolve. It was in the 1990s that the company decided to expand from local to national, which involved a major marketing campaign.

The main competitors of the company are of four types: huge companies like Kraft, and General Mills; catalog companies like William Sonoma and Sur la Table; flour companies of grocery chains like Bob's Red Mill Flour Company; and lastly, retail stores and local bakeries.

The main difference between King Arthur and most of its competitors is that it has a different ownership structure, i.e., it is an employee-owned company. The main

significance of being a non-private, employee-owned company is that employees do not work for the goals and the desires of a small group of owners. The company has a family-oriented and family-like atmosphere. People have worked here for long periods of time and there is a sense of duty from both the side of the owner's and that of the employees. As one employee commented,

> "Our company was a very family-oriented company, and they did care very much about their employees, it was the kind of place where people worked for 40 years, you know they worked there their entire lives, so there was a lot of loyalty between the employees and the owners.... [and] being a private company, we weren't subject to the whims of the stock market...."

Though originally a 200 year-old company, in the 1970s it became a new start-up company and in the last few years, especially since the 1990s, it has again begun to flourish and grow larger. With growth came the issues of change and how firms manage them. Its older employees believe that many things have changed in the last two decades. The company has become an employee-owned company, there is more awareness of environmental issues and there is more stress on a more stakeholder-management style. But they believe that the most important aspect of the changes is that company is growing rapidly, as commented on by one of its more senior employees,

> "I don't think that [change] has anything to do with us being an employee-owned company, I think it has to do with such a rapidly-growing company. I think…..we're kind of still figuring out the best way to do things, we don't have a formula that is set in stone. We're constantly adapting. We're trying new things... as a business grows we go on to more geographies, we go on to more product lines, we're adding new people, doing new things and we realize that our needs for analysis and data have grown……..our IT department has grown and now we have analysts and marketing."

She further added that,

> "So, we're constantly looking at the needs of the business, that means looking at your organizational chart that means adding new people, it means, finding where peoples' aptitudes are and moving them to fit where work that needs to be done, and that can be challenging for folks that, I just want to come in and do the same thing I've been doing every day."

In other words, the company is going through the stages of developing a more stable, delineated, organized structure, and policies for services such as IT, HR, career development etc.

The organizational philosophy as assessed from the interviews, mission statement, and the stated purpose of the organization[26] can be divided into several parts. KAF is passionate about baking and expanding the habit and knowledge of baking as much as possible. KAF believes that creation of wealth is a byproduct of doing business well. The concept of "doing business well" brings us to the stakeholder features of the company. Externally, it believes that it should serve its customers well by giving them the best product and help in developing the community. Internally, employees are considered to be the most important stakeholders. Additionally, KAF prides itself on having a highly inclusive where information is shared with the employees and the employees are encouraged to participate in the decision-making of the organization.

In the creation and dissemination of the above organizational philosophy, a major role is played by the two owners, Frank and Bruce Sands. One employee remarked that, "they are very conscious of that [social responsibility], they always have been."

This consciousness has also trickled down to other top managers. As one of the all-important "strategy team" managers said,

> "I think that my role is to participate on the strategy team to make sure that the humans, the human resources are being cared for, and crafted, positioned for

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[26] http://www.kingarthurflour.com/about/ on May 11th, 2011

success, for themselves... and for our organization. Keeper of the kingdom's soul, to a certain extent, to make sure that... people are well taken care of on a lot of at different levels, treated fairly, [and] help people come to work to do their best work."

As a proactive stakeholder oriented organization KAF considers employees as its most important stakeholders. Employees are valued in the organization and they have a lot of autonomy and voice in their work assignments. This involvement and voice is not just limited to their work and work conditions but is extended to decision-making at the company level. There is a strategy team consisting of about six senior managers. This team makes most of the decisions, but they also put up their decisions for open discussion in companywide meetings, where other employees can come and present their opinions.

With employees being stakeholders, the company is also aware of its external stakeholders and, therefore, is a socially responsible company. One of the employees said,

> "I think we always had the potential to be socially responsible, we're doing what we could, we've always had these life skills – baking programs that teach middle-school kids how to bake bread and then give it to the food shelter, we've done things like that, we've paved the way with that, so I don't think we've become more socially responsible, but I think we're implementing more things.... We just didn't used to have the employees you know to do something that would make a really big difference. But now we have a Stewardship Team [for social responsibility]."

In case of external stakeholders KAF considers customers, community, and suppliers, as its important stakeholders. KAF does surveys and approaches customers to get their feedback on the organizational performance. It is also very active in promoting employee ownership at the state level. Within the community the company has established a policy, and has identified three major areas that it donates to. The first of

these is very local giving, which orients it to New England-based charities and non-profit organizations that work in the local community. Secondly, the company also supports organizations and events that promote food-based education, such as teaching people how to bake or eat properly. Thirdly, there are certain causes the company supports such as sustainability, environmental protection, and other issues that the company feels strongly about.

Dansko

Dansko is a shoe company and the name literally means "Danish Shoe."It is a privately owned company with less than 5% employee ownership. Dansko started to operate in 1990 as a small business with its headquarters situated in West Grove, Pennsylvania. Today, it is an expanding company with almost 200 employees. Its basic strategy: "be our customers' absolute favorite shoe, not the only shoe in their closet, but their favorite shoe, and provide them with the highest quality of customer service."

The main purpose of the company is to remain economically viable, but there are things that set it apart from other companies. It does not have public-company pressures to meet certain targets in a quarter, so it can make certain investments and expenditures that may not have an immediate financial return, e.g., the installation of roof solar panels or substantial spending on the construction of a new office building that is fully environmentally sustainable. According to one of its managers, "we certainly do set budgets and try to achieve them but... within that we're not trying to maximize the profit every single quarter."

The company has its shoe manufacturing done by vendors in Brazil, China, and Italy, for whom the company has set protocols that they are asked to sign ahead of time.

And individuals from the home office periodically visit these factories. A manager in the HR department noted that,

> "Obviously the next step is to have a third party auditor come in and see, I mean to make sure, that they are adhering to our code of conduct. We haven't gone to that level yet... but we absolutely have requirements for all our vendors to make sure that they are acting in a responsible manner."

That next step will obviously occur as the company continues to expand. The same can be seen in other aspects of the company. Just as with King Arthur Flour, Dansko is also expanding and getting bigger, and with this change, the company needs to be more organized and aligned to its increasing size and business. One manager observed that,

> "The major issue [is] that we are going from an entrepreneurial small company, where everybody knows everybody and everything that's going on – 150 or so employees. You have to become specialize[d]... so I think our major challenge is figuring out how to foster the right level of communication. I can't know everything that's going on in a sales organization, but I need to know certain things. And I think like any organization, once you go to a certain size you know how to appropriately share information, and not overload people with information."

Essentially, the company needs to figure out communication systems, HR functions, and strategy issues as it grows from a small to a mid-size business.

Dansko's organizational philosophy is not much different from other medium size firms in the sample. As established from interviews and other organizational documents Dansko management believes that business organizations should play a positive role in developing communities. This belief is amply demonstrated by Dansko's Foundation that donates money to local causes and through Dansko's active participation in several

environmental and philanthropic organizations. Finally, it is also a member of B-Corporation, which makes it a stakeholder oriented organization.

As its basic strategy, Dansko considers its customers to be its main stakeholders. But there are also other stakeholders that the company feels obligated to in many ways. One of these stakeholders is its employees. The company justifies this claim in many ways which will be discussed in later chapters, but just to give an idea of this: the company offers generous health benefits; it is partly an employee-owned company with ESOP programs in place; and it allows for flexibility in employee scheduling. The company also gives a lot of autonomy to its employees, as commented on by one of the employees,

> "I have a pretty good... range of decision making... I have a close relationship with my boss, I could just discuss things with her, just to make sure I am going the right route. But for the most part, I could make decisions for the department on my own."

In general, the employees feel that they are treated at Dansko as important assets, and employees, especially those with experience in similar organizations, feel that Dansko is a better firm as far as employees are concerned. As one employee stated,

> "I've worked in other places [and] you can see the difference in terms of how people are treated in terms of the benefits,... how the message is communicated from the founder of the company: that they care, I mean I can speak to all the individual things that they've done to help people out in certain situations. And they've given opportunities to help people out that they might not have gotten in a different company or a different culture."

The third stakeholder is the community. The company is very generous in sponsoring local events and organizations, and in helping people out. The firm has a number of charities that they are partnering with in the community for life services. It has

developed long-term mutually beneficial relations with these organizations. Dansko sponsors and supports them. In return, these community organizations provide developmental opportunities for Dansko employees.

The culture of Dansko is deeply philanthropic and encourages its employees to be better and socially responsible community members. Towards this end, Dansko has established a foundation that helps fund charities in which its employees are involved. In most cases, the employees select a cause that they feel strongly about, and then the company provides them with company-paid time to serve it and charity donations from the foundation.

Generally speaking, the Dansko Foundation functions as follows, two percent from the company's store sales goes to the Dansko Foundation, as well as a percentage of all sales from outlet stores and online. There are also employee contributions. The owners, Mandy and Peter, it goes without saying, have also put money into this endowment for non-profit organizations.

If an employee is passionate about a non-profit organization, they and the organization fill out the paper work. Once each quarter top management meets to review grant proposals, and funding is distributed among many such organizations, based on the decisions adopted.

Finally, as a stakeholder organization Dansko cultivates long-term, mutually beneficial relationships with its business stakeholders like vendors, and suppliers etc.

All of the above has created a specific culture in the organization.

The company recently conducted an employee-wide survey in order to learn know how they felt about the culture, values and philanthropic efforts. Another purpose of this

survey was to establish channels of communication between employees and management. The main impact was a demonstration of the fact that the company values and seeks the opinions of its employees.

The company has also fostered a culture of informality, an open-door, relaxed atmosphere. For instance, the shoes that Dansko manufactures are very comfortable clogs that are not at all formal, and employees often wear them at work.

Finally, along with all the above, the organization is also competitive and promotes professional competence.

The culture of the firm, like all of the previous firms discussed, is set by both Dansko owners. As commented on by a senior HR manager,

> "They're hiring people that are fitting into that mold. I think that's really the start of this, and you establish a set of procedures over time. And certain things are embedded in there, and as you said, [as] you are looking for [a] set [of] other people to hire, you've got a set of criteria you are looking at."

Small-Size Organizations

Untours

Untours is a for-profit tour company, founded in 1975 under the name of Idyll, Ltd. by Hal and Norma Taussig. The unique character of the company developed with its later name change to Untours. The use of the prefix "Un" before "tours" was not an original idea, but one definitely unique to the industry. The prefix "Un" was in an advertising campaign launched by 7Up in the 1970s. The idea was to break into a market dominated by Coca Cola by promoting 7Up as the "uncola" i.e., different from Coca Cola.

Untours is privately owned by its two founders. It is a small organization, with around 20 employees. But recently the number has been reduced due to some lay-offs stemming from a financial squeeze. Work is organized on the basis of teams, set up according to the European destinations that they handle. It is an organization with a basic structure in which one of the owner/founders serves as the president, and three to four managers report directly to him – each of whom handle four to five leaders of teams dealing with varying destinations.

Idyll, Ltd was primarily a tour company with Switzerland as its only destination. This changed as the name of the company was changed to Untours with a view to being the first to introduce in the U.S. a more comprehensive way of visiting Europe by staying in private rental accommodations arranged by Untours[27]. The main idea behind this innovation was to provide tourists with an opportunity to have a deeper experience as compared to regular guided-bus tours. Thus the unique character of Untours lies in its actual product, the ability "to see the sights and to experience the lifestyle [of your destination] with support when you want it and independently when you don't."[28]

More specifically, Untours organizes European vacations for people by providing them with vacation rentals. The company puts together packages for their customers, which include private apartments, cottages, and farms; it assists upon arrival with transfer to their destination and with local ground transportation; and offers hassle-free peace of mind through complete, on-site support by its local representatives who also provide travelers with an orientation; and finally, freedom for visitors to experience local life by choosing their own destination spots.

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[27] http://www.untours.com/about.html on September 5, 2010

[28] Untours Pamphlet 2010, Fall Edition

The novel and exceptional characteristics of the company do not end with the product it sells. They also include the unique worldview of its owner, and the values and mission that the company stands for. Hal Taussig, one of the owners and the president of the company, is a staunch believer in social justice, and towards that end, he believes that inequality of wealth and poverty needs to be eliminated. He believes that businesses should adopt sustainable practices, which has now become increasingly important. He argues that in recent years the views of business people are also changing,

> "We know that we can make money quickly or that we can make money... over the long term…. I think we business people have begun to see that... our own personal needs last longer if everybody else's needs are sustained."

Based on this belief Hal decided long ago that he will not accumulate wealth, but will instead use his resources to promote social and economic justice. Hal tried out different schemes to redistribute wealth such as end-of-year distribution of all his profits to his clients or employees. But eventually, he created the Untours Foundation in 1992 to distribute all the profits of Untours to loans for the funding of small businesses in the community, the creation of jobs, and the support of low-income housing. Hal's efforts for social justice are not just limited to the foundation's work; he has also started a campaign in Media, Pennsylvania – the company's hometown – to declare it a Fair Trade town. The city council voted to declare Media a Fair Trade town, making it the first such town in the U.S.

Based on the above aims and objectives, the Untours Mission Corporate Resolution/Charter clearly identifies itself as a stakeholder organization, as it states that,

> "A Director shall consider such factors as the Director deems relevant, including, but not limited to, the long term prospects and interests of the company and its stakeholders, and the social economic, legal, or other effects of

any action on the current and retired employees, the suppliers and customers of the company or its subsidiaries, and the communities and society in which the Company or its subsidiaries operate."[29]

The Mission Statement of the organization also, though not in any particular order, resonates with the same sentiments as the above statement. It affirms that the company will: exceed customer expectations; create opportunities for people to have vacations who cannot afford them; pay employees well, and with good benefits; seek to reduce the average gap between the highest and the lowest paid; will seek to diversify the workforce; choose suppliers and other business partners on the basis of the similarity of their values and goals; and finally, be a good corporate citizen by serving the community and promoting economic and social justice[30].

All of the above has culminated in the creation of an organization that is externally involved through its foundation in the dispersal of its profits for support of job creation, small businesses and low-cost housing in various communities. Now the foundation is funded not only by Untours but by hundreds of clients, whom the firm calls "Untourists." In fact, the owner believes that many of Untours' clients stay with it because they like what Untours stands for.

Internally, the above philosophy has created an organization that not only treats its employees with dignity and fairness, but also encourages them to be better citizens in their respective communities. These efforts have also resulted in Untours being honored by Paul Newman and John F. Kennedy, Jr., and was presented in 1999 with the "Newman's Own/George" award for being the "most generous company in America."

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[29] From Untours Corporate Resolution
[30] From Untours mission statement

Hal Taussig himself was presented with a Lifetime Achievement Award at the 2008 Philadelphia Sustainability Awards.

Green Shirts

Green Shirts is a privately owned small, custom t-shirt manufacturing company with about 20 employees. Originally, the company catered to many big brand names. Now, it specializes in creating sustainable t-shirts. Clients can place orders for T-shirt designs with specific requirements including the design, quantity, number and type of print colors, directly by visiting the company or through Green Shirts' website.

At GS, sustainability pertains to an effort to treat its workers fairly while reducing the company's ecological footprint via the use of recycled materials and renewable organic fibers, such as organic cotton, and the use of environmentally friendly inks and dyes in the manufacturing process. More specifically, the company has three niche products or shirt-brands: A 100% organic cotton shirt; a recycled polyester shirt, which is made from 65% polyester obtained from recycled bottles, and 35% cotton from recycled cotton scraps; and the third brand is a conventional cotton shirt – not organic or recycled – derived from local cotton called "Cotton of the Carolinas," which is grown and processed entirely in North Carolina.

The company was established in 1977 as a manual screenprinting factory[31]. It became fully automated in a few years and by the late 80s and early 90s, Green Shirts was like any other conventional screen-printing company, with over 100 employees, and doing one-third of printing jobs on the East Coast for companies including: Nike, Tommy Hilfiger, Polo, Reebok, Adidas, and The Gap. In 1993, the North American Free Trade

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[31] http://www.tsdesigns.com/about/history/ on Sept 8th, 2010

agreement (NAFTA) was passed and all the major brand names fled American manufacturers for much cheaper South and Central American, and Asian manufacturers. This major shift hurt Green Shirts. In less than two years, the company shrank from nearly one hundred employees to 14. As the company languished for about two years, unable to compete with foreign low cost manufacturers, the firm's owners with the help of fellow local business owners redrew their business model emphasizing the Triple Bottom Line: people, profit, and the planet.

The owners of the company were already aware of and cared about the impact of their business on the environment and sought to incorporate sustainability and triple bottom line ideals with profit motives. Hence, the owners changed their firm's mission statement to define a successful company as financially viable but while able to achieve a balance between people, profit, and planet. "So we're just saying, there's more than one way to measure business." one of the owners said, adding, "so everything we do has to answer, every product, every service…….what's the social impact?, what's the environmental impact?, what's the bottom line impact?." The firm also became a B-Corporation to emphasize that a for-profit company can achieve balance between its stakeholders, and to show that customers care about the social and environmental costs of products they buy[32].

The owners believe that the present issues faced by the US economy are the results of greed and short-term profit strategies. They argue that a new business model should emerge from the recent economic tumult that should not be solely based on the bottom line of profit, often accompanied by short-sighted decisions for the benefit of the few. They argue that in order to effect change, entrepreneurs should take the lead and

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[32] http://www.bcorporation.net/tsdesigns on Sept 8th, 2010

develop more responsible business models that stress a long-term view of business and

economy. One of the owners proclaim,

> "We want to engage on a daily basis, and have that discussion with people, and
> show that this is a different way to run a business, and the right way to run a
> business."

He continues,

> "This is not just about me, or you, it's about everybody. So we can't forget
> those people, as we rebuild, because at the end of the day, it doesn't matter how
> much money I make if the rest of the world suffers, because eventually that
> suffering in the world's gonna affect me, so I'd rather you know, let's
> everybody participate and benefit, and not just a few."

The owners are specific in defining social justice in the workplace. To them,

social justice means paying living wages, a democratic workplace, consideration of

employees' needs and other people linked with the organization, as well as supporting

local economies and labor. They also believe that products should be made in the market

in which they are sold and for this purpose they have created a special brand called

"Cotton of Carolinas." In the words of one of the owners, social justice is,

> "…looking at all the people that are affected by our business, from our
> employees, to our vendors, to our customers, and uhm, it's a sound business
> strategy that you want to make a profit, but it's also just as viable that you don't
> want to take advantage of people."

These ideas are manifested in many ways through Green Shirts. Over 99% of their

product is domestically made. They have also developed their own environmentally

friendly print-dye process without compromising the quality. They have also increased

the use of bio-diesel, wind-power, and solar power, and have developed a large employee

garden. The leadership firmly believes that doing business the right way opens up more options for developing business models. One of the owners explains,

> "it opens up a lot of other paths that a business wouldn't normally take, because a business is only focused on how much money can it make, since we're focused on, of course making money -would be nice to do right now - but also our people and our planet, it's really opened up a lot more paths, and to me, it's made business a lot more fun, even in these challenging times."

Green Shirts also considers the local community as a major stakeholder, and for that purpose it has taken major steps to bring jobs to the local communities and it helps local cotton farmers of the Carolinas. Their main goal is to make consumers more aware of where their consumer items are coming from and develop a much closer relationship between the consumer and the local agriculturalists[33]. They call it, "dirt to Shirts in under 150 miles." According to the owner, the average transportation footprint of a t-shirt is about 17000 miles, while the same footprint for their t-shirts is 750 miles. The owners also explained that any consumer that wants to know can visit their website to find what year and where their T-shirts were made, including which cotton farm. Thus, consumers can trace the whole supply chain-employing over 700 people- from the cotton farm to Green Shirts[34]

Green Shirts is a stakeholder firm insofar as it considers its employees, customers, suppliers, and community as important stakeholders. They believe in involving and engaging stakeholders, which is why they invite them to farm visits to explain the value of what they are doing. In return, customers have given the owners the confidence to

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[33] A video in which the Owners explain their brand "Cotton of Carolinas,"
http://www.youtube.com/ncfarmbureau#p/a/u/0/xI4JeWpMhAg taken from Green Shirts Website on September 8th, 2010.
[34] ibid

declare, "we don't just have customers, we have advocates." They believe that this type of loyalty only comes through taking care of your stakeholders.

Internally, the most important stakeholders are the employees. Like all organizations in our sample, employees are valued in the organization. The atmosphere in the firm is very inclusive as far as decision-making is concerned. There is a lot of autonomy in the workplace and employees are also involved in the decision-making. The organization as in its relationship with external stakeholders maintains transparency and openness with the employees and aims to develop long-term mutually beneficial relations with its employees.

Concluding Remarks

In this chapter we have introduced our sample organizations. We have provided basic information on: size, industry, ownership structure, and business trajectory of the sampled organizations. We have also discussed some conceptual themes related to their mission statements, stakeholder orientation, and views on business and society. A summary representation of the facts about the studied organizations is given in Figure 5.1.

In our discussion of all the organizations we have noticed that all of them are self-declared proactive stakeholder organizations. This declaration is evident in mission statements, stated purposes of the organizations, charters, and views of the owners or the top management. There is, however, one important distinction between all of the above firms. On the scale of stakeholder engagement not all of them are the same. They have similarities in dealing with the internal stakeholders but as far as the external stakeholders go there are major differences. This is an important observation, especially in

Figure 5.1: Organizational Chart

	Facts & Background	Ownership Structure	Industry	Stakeholder Basis	Stakeholder Orientation[35]
Johnson & Johnson	A 125 year old Organization with HQ in New Brunswick, NJ, USA. Has nearly 250 subsidiaries, 114,000 employees operating in 57 countries	Publically owned	The business is divided into three segments: Consumer Health Care; Medical Devices and Diagnostics; and Pharmaceuticals	A Credo established in the early 1940s by the General Johnson (Second Generation Owner) that enumerates organizational stakeholders	J&J is a proactive stakeholder organization that surveys its environment for potential stakeholders and involves and engages internal and external stakeholders in decision-making process
Give Something Back	Established in 1991 with HQ in Oakland, California, USA. Has almost 100 employees	Privately Owned	A flourishing independent office supplier with major competitors as Office Depot & Staples	Based on the views of the owners and also based on its charter as a B-Corporation	Does involve internal stakeholders in decision-making. External stakeholders (Customers) only involved in donation decisions, therefore, an proactive-accommodative stakeholder orientation
Dansko	Established in 1990. A growing organization with almost 200 employees and HQ in West Grove, Pennsylvania, USA	95% Privately Owned, and 5% Employee Owned	Manufactures comfort shoes with vendors in Europe and national presence in USA	Based on the views of the owners and its Charter as a B-Corporation	Internally involves employees. Very active in local causes but external stakeholders not involved in decision-making. Categorized as accommodative-proactive stakeholder organization
Kind Arthur Flour	Originally almost 200 years old company. The present organization was restarted in the 1970s. A growing business of about 170 employees with its HQ in Norwich, Vermont, USA	100% Employee Owned	Mainly a Flour company but also supplies baking products, utensils, and baking education at national level	Based on its charter as a B-Corporation and views of the owners reflected in the purpose statement of the company	Internally all employees are involved in decision-making at different levels. Externally, it is active in ESOP support and other causes but stakeholder involvement is minimal. Therefore, it is an accommodative-proactive stakeholder organization
Untours	Established in 1975. A small company with 20 employees HQ in Pennsylvania, USA	Privately Owned	A tour company that arranges tours to several European destinations	Based on the views of its owners and it Charter as a B-Corporation	Small company with very inclusive decision-making internally. Externally, very active in local and national causes. Categorized as accommodative-proactive stakeholder organization
Green Shirts	Established in 1977. Recreated after NAFTA. A small company with 25 employees and HQ in South Carolina, USA	Privately Owned	A custom T-Shirt manufacturing company	Based on the views of its owners and its Charter as a B-Corporation	Inclusive decision-making internally. Externally, active in causes but stakeholders not involved in decision-making. Categorized as accommodative-proactive stakeholder organization

categorizing of these firms as proactively stakeholder. In Chapter 6, we will in detail

describe their individual stakeholder strategies and why and how they differ from each

other.

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[35] The categories of stakeholder orientation will be discussed in Chapter 6

This chapter has set the stage for the next three chapters. In Chapter 6, we will discuss the features of proactive stakeholder organizations and the mechanics of proactive stakeholder management. In Chapter 7, we will discuss the culture of the studied firms and try to decipher the processes that create proactive stakeholder firms. Finally, in Chapter 8, we will discuss the consequences of proactive stakeholder management.

Chapter 6: Descriptive Proactive Stakeholder Management: Features & Dynamics

The overall assertion in this work is that business organizations need to have a proactive stakeholder orientation to create mechanisms that will lead to consensus and win-win solutions for both firms and their stakeholders. But, how is this achieved? By examining the dynamics of such complex stakeholder relationships and the mechanics of what is defined in this work as *proactive stakeholder management*, we demonstrate how successful proactive stakeholder organizations can actually realize this aim. We will evaluate three main areas of proactive stakeholder management: Who are proactive stakeholder organizations and what overall practices make them so? How do these firms recognize stakeholders? And what strategies do these firms employ to reconcile conflicting stakeholder and organizational interests?

Chapter 6 is divided into four sections. The first section briefly discusses the literature review and specifies the contribution of this work in the above mentioned areas. The next three sections contain detailed discussion on the above three descriptive questions and represent empirical data and analysis of the studied organizations.

Existing Research & Contribution to Descriptive Stakeholder Theory

The main contribution of this chapter, as stated above is in the realm of descriptive stakeholder theory as enumerated in Box 6.1.

In the current business environment, traditional stakeholder management no longer works because the environment has become more complex and uncertain—organizations need to develop symbiotic interdependencies rather than protective buffers, the traditional way to manage stakeholders (Harrison & St. Caron, 1996). Therefore,

firms need to develop proactive partnership techniques not only to increase control in the face of environmental uncertainty, but also to create organizational flexibility. Based on these new elements, in this chapter we will discuss the features and characteristics of proactive stakeholder firms; mechanisms through which they recognize their stakeholders; and how they interact with stakeholders to create consensus and win-win solutions.

Box 6.1

Contribution of this work to Descriptive Stakeholder Theory
- There is a positive relationship between levels of stakeholder engagement and organizational stakeholder orientation
- Features of Proactive Stakeholder Organizations:
  - Constant survey of their environment for potential stakeholders
  - Engagement of stakeholders in a dialogue and involvement of stakeholders in decision-making
  - Development of intricate partnerships with stakeholders
- Stakeholder are recognized based on:
  - Fixed Features
  - Dynamic Features
- Conflict resolution is based on a balanced approach

To understand the overall division of the work, it is also useful to revisit Wood (1991). Regarding stakeholder management, Wood pointed out four general areas of research. They are:

1. Orientation to stakeholder management (what is the philosophy of the firm in dealing with its stakeholders and what organizational actions reflect this orientation?) *(Descriptive)*

2. Stakeholder interaction (who are the organizational stakeholders and how do organizations resolve conflicts between stakeholder and organizational goals?) *(Descriptive)*

3. Institutionalization of stakeholder policies within the firm (how does a stakeholder firm create a stakeholder culture?) *(Descriptive)*

4. Efficacy of stakeholder management (how do firms evaluate their internal and external stakeholder actions and what are the benefits of stakeholder strategy?) *(Instrumental)*

We will address evidence related to the first two research areas—orientation and interaction. We will discuss our case studies and analyze what their orientations towards stakeholder management are. We will also discuss how these organizations decide who their stakeholders are and how they balance interests by avoiding consistent conflict. The third question (institutionalization) will be discussed in chapter 7, and the fourth question (efficacy), in chapter 8.

Before addressing the case studies, it is important to discuss the contribution of this empirical work in the aforementioned areas. In the first research area, orientation, we are interested in knowing organizational policies towards stakeholder management and what organizational actions manifest those policies. In this sense, we need to ascertain the avowed stakeholder policy of our sample organizations and then outline and analyze organizational actions that justify that policy. As discussed in Chapter 3, unfortunately, there is almost no empirical work that has outlined policies and actions of stakeholder firms. There are, however, some scholarly works that give this study its theoretical grounding.

In Chapter 2, before going into the details of our theoretical model, we discuss the need for proactive stakeholder management. Furthermore, to operationalize proactive stakeholder orientation we discuss certain theoretical models that provide categories of

organizational responsiveness to its stakeholders and environment. Sethi (1979) gave three categories: reactive, defensive or responsive. Carroll (1979 and 1991) enumerated four categories: reactive, defensive, accommodative, and proactive. There are other theoretical models of organizational responsiveness but we, as stated in Chapter 2, follow the categories given by Clarkson (1995), who gave RDAP scale of responsiveness as seen in Figure 6.1.

Keeping the four categories in mind in this work, we have taken six organizations that—based on their mission statements and avowed stance—can be categorized as either 'Proactive' or 'Accommodative.' The reason for choosing organizations with a specific stakeholder orientation is that organizational boundaries are becoming blurred, and there is an increasing interdependence between organizations and their external environment. This interdependence necessitates not only management of stakeholder interests but proactive partnerships with stakeholders (Harrison & St. Caron, 1996). Therefore, it is necessary to evaluate and understand how such organizations operate. So, in the first section of our empirical analysis in this chapter, we will discuss organizations' philosophical stances and how they are manifested to assess the integrity between what they say and do. Finally, we seek to identify any recurring patterns that can be considered best practices of stakeholder-oriented firms.

We have already discussed how we define 'proactive' and 'accommodative' stakeholder orientations. To refresh our memory, proactive stakeholder organizations: constantly survey the environment, identify future and potential stakeholders and then engage them in dialogue to develop mutual understanding and shared goals. With respect to decision making, internal stakeholders in such organizations have autonomy and are

valued. Accommodative organizations are lower on the scale of engaging their external

stakeholders. But their internal stakeholders are engaged in the decision-making

processes.

Figure 6.1: The RDAP Scale

RDAP Scale		
Rating	**Posture or Strategy**	**Performance**
Reactive	Deny responsibility (Fight all the way)	Doing less than required
Defensive	Admit responsibility but fight it (Do only what is required)	Doing the least that is required
Accommodative	Accept responsibility (Be progressive)	Doing all that is required
Proactive	Anticipate responsibility (Lead the industry)	Doing more than is required

Source: Clarkson (1995), Page 109

The second research area is related to the actual dynamics of stakeholder

management and has two subdivisions: how stakeholders are chosen and how a balance is

created between stakeholder interests and organizational goals.

The first subdivision is perhaps one of the most important areas of research in

stakeholder theory. Its importance lies in a direct cause and effect: how an organization

defines its stakeholders will set the scope of its actions. We have already discussed

empirical and scholarly works on how to recognize stakeholders. In this section, we will

look at the literature briefly to clarify the contribution of our study.

In most studies in this area, scholars have identified salient features of

stakeholders to help managers and organizations find out which stakeholder needs

immediate attention and who to prioritize. Harrison & St. Caron (1996) found that

economic or political power and the ability to reduce organizational uncertainties are two

important features of stakeholders. Greenley and Foxall (1997) find that power is a vital

stakeholder feature. Agle, Mitchell & Sonnenfeld (1999) give three salient features for

stakeholders: power, legitimacy and urgency, with urgency being the best single predictor of stakeholder salience. Kochan & Rubinstein (2000) echo others in emphasizing the importance of power, but add two more stakeholder features: adding to the firm's critical resources and linking assets with the organization's fate. Finally, Pajunen (2006) emphasizes resource dependence and network position as two important stakeholder features.

The contribution of this study in the recognition of stakeholders is quite significant. From all of the above studies we can safely conclude that "stakeholder power" in some shape or form is perhaps the most important stakeholder feature. The stakeholder features discussed above do give the stakeholder concept its required dynamism, but at the same time they miss out on some other, important features. Furthermore, defining stakeholders cannot be a completely dynamic process—there have to be some basic guidelines for managers to define stakeholders, and those should be linked with organizational missions and strategies.

Our study is based on case studies of six proactive or accommodative stakeholder firms. In these categories of firms, to begin with, there is a different organizational dynamic at play when it comes to stakeholder recognition. These organizations are higher on the stakeholder orientation scale so 'power' does not seem to be as important to them as found in previous scholarly works. Previous scholarly works were broader quantitative studies with organizations of varied stakeholder orientations.

Furthermore, our work unearths some additional dynamic features that had not been ascertained by the previous works. Our work finds that organization on the very part of the stakeholders is a crucial stakeholder feature (Heckscher et al, 2003), along with

social acceptance of the stakeholder or the stakeholder's interest. This study also supports prior research findings that stakeholders can add value to organizational decisions, along with its products and services (Heckscher et al, 2003).

Finally, this work also adds some fixed features to aid in recognizing stakeholders. As we will see later in this chapter, the studied organizations have precise mission statements and the leadership or the owners play a very important role in setting the tone. Based on these features, we find that beyond the dynamic stakeholder features, there are also some fixed *a priori* factors that help managers in recognizing stakeholders. The source of these features is the organizational mission statements and leadership views. The importance of these features is that they provide a link between the overall organizational strategy and stakeholder management by the firm.

The second subdivision involves the interaction aspect of stakeholder management. Due to the very nature of this research area, there are several aspects that need to be considered. As far as the existing research goes, a number of scholarly works have been done covering various aspects of this rather wide area.

Harrison and St. Caron (1996) found that in today's intrusive external environments, it is important for organizations to develop proactive strategies of stakeholder management. Silanpaa (1998) agreed with the proactive strategy and emphasized that this alignment of interests and dialogue between the stakeholders and the organizations is important.

Scholars have also done work on factors that influence organizational stakeholder strategies. Some argue that organizational stakeholder strategy is influenced by external factors and entities such as: institutional investors (Johnson & Greening,

1999); regulatory bodies (Ogden & Watson, 1999); laws, composition of board of directors, and institutional structures (Louma and Goldstein, 1999; Kassins and Vafeas, 2002; Doh and Guay, 2006). Others stress the particular importance of external institutional support, such as U.S. laws that support stakeholder management (Rubinstein and Kochan, 2000). Still others maintain that stakeholder management is more influenced by internal forces such as top management (Weaver, Trevino and Cochran, 1999).

There are some other dimensions that have been explored as well. Ogden & Watson (1999) found that trust is an important ingredient in developing stakeholder relationships. Strong, Ringer & Taylor (2001) focused on trust and found it an important feature for stakeholder satisfaction. Drew et al (2001) found that open communication is also important in stakeholder relations. Finally, regarding conflicting interests, Ogden & Watson (1999) found that reconciliation of interests can be achieved through regulatory bodies.

As evident from the above discussion, several aspects of the dynamics of stakeholder management have been researched: the importance of trust and communication in stakeholder relations, internal and external factors that influence organizational stakeholder policies, the importance of dialogue, and the need for alignment of interests between stakeholder and organizations, and how different interests are reconciled.

Despite the wide coverage of topics in this area of research, there are three important deficiencies to explore—missing detail, dichotomy of findings and missing the end-to-end sweep of the process. Many of the key themes have not really been explored in detail, such as a collaborative stance of the proactive organizations based on

reconciliation of interests, the need for dialogue, communication for stakeholder relations and the criticality of trust. Then, as we go over the empirical works we see that there are some areas, especially influence over stakeholder firms, in which the research findings in different works are dichotomous and therefore contradictory. Finally, none of the works individually gives us a clear understanding of the whole process of stakeholder management.

The main contribution of our study in the dynamics of stakeholder management is that we will discuss the process of stakeholder management as a whole in its social and organizational context. In this overall theme, we will discuss not only the importance of aspects like communication, discussion, trust, alignment of interests, but also their place in the whole process of stakeholder management. We will see in this section that the studied organizations resolve conflict of interests by developing similarity of interests through communication, dialogue and stakeholder involvement in decision-making. The main interest of the firms is to reach win-win solutions through the time and effort of developing long-term relations with their stakeholders.

Finally, one of our major contributions to proactive stakeholder theory is that we have found a relationship between different postures towards stakeholders and levels of stakeholder engagement. The different postures in our equation are represented by the RDAP scale that has already been discussed. Our study has found that there is a positive relationship between higher levels of stakeholder engagement and higher levels of stakeholder orientations. In simpler terms greater levels of internal and external stakeholder engagement by the organizations elevate the organizations from lower level

or stakeholder orientations-i.e., reactive, and defensive- to higher levels of stakeholder orientation-i.e., accommodative, and proactive.

Again, there are no empirical works that stress the above point. However, in our review of the theoretical literature in Chapter 1 we discussed some of the works that support this conclusion. Gary (1989) argues that resolution of conflicts, creation of shared visions, and promotion of mutual good can be achieved through an organization's collaborative approach. Wicks, Gilbert, & Freeman (1994) advocate a collaborative approach based on increased communication and collective action. Hendry (2001) supports decision-making with the input of all affected stakeholders. Savage *et al* (1991) reiterates the importance of stakeholders in today's business environment and argues that organizations should collaborate with stakeholders that can threaten the organizations and with whom there is higher possibility of cooperation.

Figure 6.2: Link between Stakeholder Orientation and Stakeholder Engagement
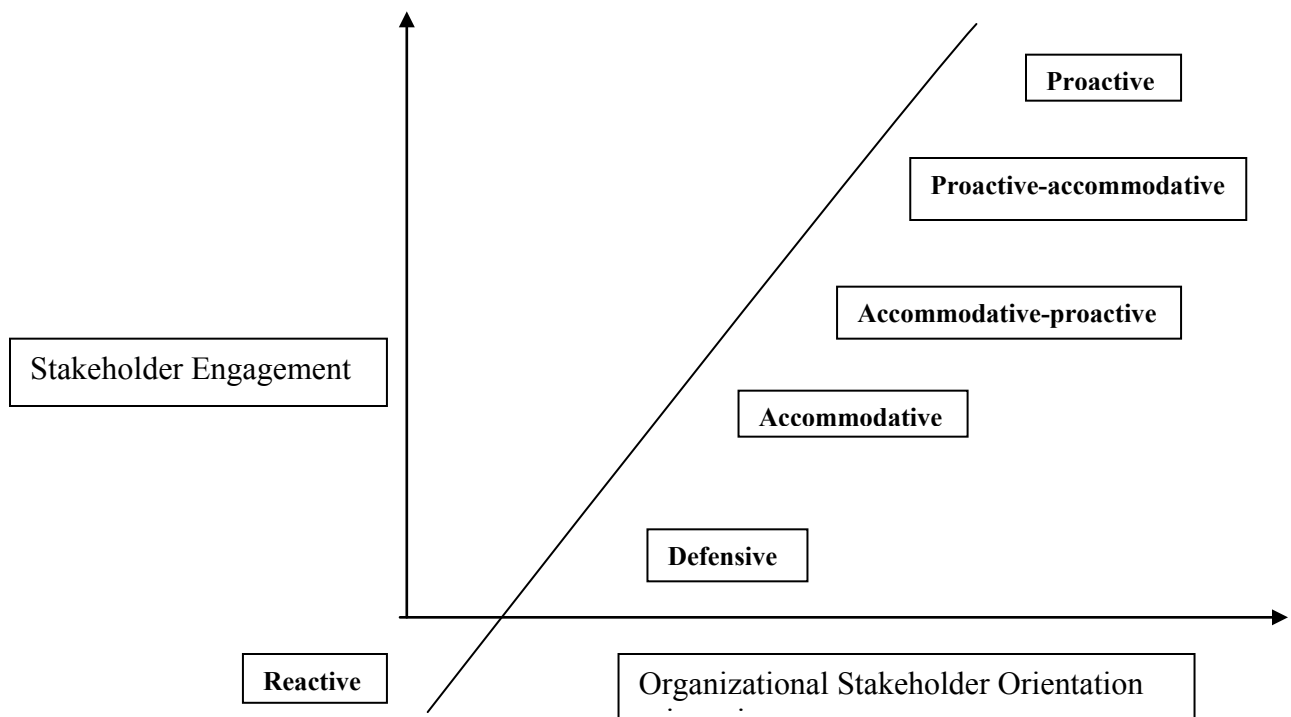
From the above we can see that theoretically scholars believe that organizations need to increase their understanding of their business environment, which primarily includes taking stock of their stakeholders. The scholars also support increased interaction with organizational stakeholders and a collaborative orientation to balance interests and create consensus. Empirically, this work supports the above arguments, but at the same time it adds to the theory by finding a relationship between the RDAP scale and stakeholder involvement as depicted in figure 6.2.

Figure 6.3: Descriptive Proactive Stakeholder Management

Proactive Stakeholder Practices	**Stakeholder Dynamics**	
External Stakeholders *Environmental survey* *Engagement with Stakeholders* • *Solicit Opinion* • *Dialogue*	**Who is a Stakeholder?**	**Conflict Resolution**
	Dynamic Features *Organization* *Social Acceptance* *Value adding* *Power & influence*	*Leadership* *Mission Statement* *Long-term relations* *Discussion* *Consensus building* *Win-win Solutions*
Internal Stakeholders *Autonomy* *Employees valued* *Engagement in decision-making (Solicit Opinion & Dialogue)* *Opinion valued & sought*	**Fixed Features** *Leadership* *Mission Statement*	

In sum, this work will contribute to three areas of stakeholder theory (Figure 6.3): one, give a general description of how stakeholder-oriented firms deal with their stakeholders and establish best practices; two, extend our understanding in the well researched area of defining a stakeholder by creating two broad categories of dynamic and fixed features and by adding two salient features—how stakeholders stay organized

and how they add value to the firm; three, provide a holistic view of how stakeholder-oriented firms reconcile stakeholder interests with their own organizational goal.

Proactive Stakeholder Practices

In this section we will discuss organizational policies of the studied organizations and their actions that make them proactive stakeholder organizations. A General depiction of stakeholder features is provided in Box 6.2.

Box 6.2

Proactive Stakeholder Organizational Features

• **Surveying the environment**

"We invited the activists from the earliest development stages of our drugs, and said….do you have input? And they review all of our clinical trials…see the protocols….they recommend doctors …to have them participate in the trial."
(Senior J&J Manager)

• **Engaging stakeholders in discussion & decision-making (External)**

"The company took a lot of time, actually, going through many of the details…..they didn't give in to everything that the community asked for, but in my perspective they did a pretty good job of explaining why they were choosing not to accept, or incorporate it"
(AIDS Treatment Activists Coalition)

• **Engaging stakeholders in discussion & decision-making (Internal)**

"I've seen examples of… people's suggestions and comments and ideas actually influencing how we do business……sometimes our merchandising department will show us three different choices for the catalog cover, and we actually vote on it, and they decide based in part on our feedback"
(Employee Opinion)

• **Developing a long-term relationship and partnerships**

"(these) relationships take a long time to develop….through those discussions it may be over the course of a lot of time before something actually result from those discussions."
(Senior Manager, J&J)

"Partnering means, you carry your own load, you are an active participant…..you're transparent……Part of being a partner is finding that place where you might disagree, and if you can't find consensus, at least you agree to disagree, and you do it in a respectful way"
(Community Outreach Manager)

Johnson & Johnson

J&J is a very large international organization. It operates through 250 subsidiaries in 57 countries and has 114,000 employees worldwide[36]. It has numerous product lines that reach many countries and communities. As a result, its stakeholders are diverse and multi-faceted. For the purpose of this work, it would be impossible to assess the relationship of J&J with its full range of stakeholders existing in different countries. Therefore, in looking at J&J headquarters, the following review will primarily cover J&J's view of its overall policy and strategy regarding stakeholders; how J&J believes it engages employees as its internal stakeholders; the way J&J's philanthropic activities try to connect with local and international NGOs and stakeholders; and how J&J as a corporation try to develops relationships with foreign countries through its Government Affairs Department. We will also present an in-depth discussion of a more concrete example, which emphasizes how one of the J&J holding companies, Tibotec, reaches out to its most important stakeholders.

J&J Corporate Strategy

J&J's overall policy of engaging its stakeholders has been rooted in its mission statement, or Credo. This statement itself is not a lengthy document and does not lay out specific policy guidelines. Rather, like a constitution, it outlines who the important stakeholders are and what main principles the company must operate along. As one middle manager in the J&J headquarter explained,

> "It's not really a cookbook, there [are] a lot of nuances in the work that we do. But what's not nuanced is the intention of the corporation. J&J has a mission statement (based on which) we have very clearly articulated strategies that describe what [it is] that we want to do, what [it is] that we like to accomplish and… [how] to connect that intent… non-profit organizations or charitable

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[36] http://www.jnj.com/connect/news/all/johnson-and-johnson-holds-2011-annual-meeting-of-shareholders on 30th April, 2011.

organizations and universities… [and] find ways to touch the lives of people and communities around the world."

The above intent is clearly stated in J&J's Credo, in which four main categories of stakeholders are listed by order of priority—with customers at the top, followed by employees, community and shareholders. This stakeholder orientation is manifested in J&J's policies and actions, in its philanthropic activities at local and international levels, through its interactions in other countries, and in its valuing its employees and involving them in organizational processes.

Internal Stakeholders

Employees, as internal stakeholders, are mentioned in the second paragraph of J&J's Credo as important stakeholders. Per this Credo, they rank higher than the shareholders. Therefore, in this section we will discuss two important aspects of employees as important stakeholders. First, we will discuss employee involvement by J&J as a proactive strategy to engage employees in assessing and improving its value-based business policies. Second, we will focus on evidence that shows that employees are authentically valued and treated fairly in the organization, not used in a politically correct technique.

Throughout all the interviews conducted with J&J management, it has been consistently noted that J&J considers its employees to be vital. The employees and managers at all levels have considerable autonomy in their work responsibilities, and there is an overall culture of involvement in the company, an important aspect that will be discussed in the chapter 7. But in this section we will discuss employee engagement and

involvement first at the structural level, then as feedback to improve the J&J Credo, and finally as a tool to improve management practices.

At the structural level, employee involvement in overall organizational policy making is encouraged through a separate office created for employee advocacy and workplace engagement. A senior manager from this wing explained that the function of this office is to,

> "Truly understand how our employees are feeling, [measure] our ability to live [by] our credo, and,… assessing it from all vantages of our stakeholders, [and establishing if we] are... living up to [our] promises to our customers, or at least [to] the community."

The role of the department is to synthesize insights using surveys that,

> "Express to management things we're doing well [with the Credo as the standard] and areas of opportunit[ies for improvement], and to help provide tools, processes [and] insights for management to take [corrective] action, [based on] those survey insights… In addition to that, I also work with leaders in HR around the globe to help reinforce our living our credo through training, management dialogue…and various other processes and tools."

The workplace advocacy and engagement office also arranges Credo Dialogues among credo leadership teams. As one senior HR manager stated,

> "We'll almost tear apart each line of the credo, and [ask], what are we leaving [from] the values of the credo? Is what the credo is saying still relevant for us, and how do we need to change our behavior?"

"Credo Dialogue" is a vital instrument utilized to update and reevaluate J&J's most important source of guidance that is the J&J Credo. J&J's Credo is considered by many to be a living document and a constitution, as commented by a senior manager from Government Affairs Department that, "It's a living document and it gets amended every now and then. It's like the US constitution, it gets amended very infrequently but it does get updated." It was drafted some 70 years ago. Since then, it has provided J&J with

the core precepts around which it conducts its business practices. Considering the Credo a living document means that it guides J&J management in daily decision-making and that it is updated to render it more flexible and applicable in a changing economic and industrial environment.

Considering the importance of the Credo, J&J leadership engages employees as stakeholders in the "Credo Dialogue". This engagement is primarily an attempt by J&J to solicit employee opinion and assessment about J&J with the view to make amends if required in any area of the organization. It was noted in several interviews that the Credo is often changed based on these surveys, and if any department of subsidiary is not up to the required standards prescribed by the Credo, then steps are taken to improve their performance at both department and individual levels.

The credo survey is conducted every two years. It is carried out globally and is one of the company's main methods of assessing employee feedback. This a comprehensive survey which assesses employees' views on all aspects of the organization: their individual work and their understanding of strategy goals at the sectional level; their views on their immediate managers and management in general; and their opinions on J&J performance from a business and credo perspective. It poses questions such as: Do you feel that your performance review gave you information that helped you to do your job better? How connected do you feel to the strategy, goals and objectives of your department and your division? It also asks employees to rate J&J's performance as a good community partner and to grade supervisors, management, their particular company and J&J as a whole. One senior HR manager put it in these terms:

> "You have a baseline... and you can see the progress... that's our barometer, and we spend a lot—and then we ...build. We do communication back to the masses,

and then we…. figure out what are the two or three areas that we want to work
on.”

She further added,

> "It's a tremendous diagnostic tool, for management and then for HR—a lot of it
> is employee engagement. That's where we... figure out how engaged our
> employees [are], if they're really disconnected—[then the question is,] why?"

One senior manager from Professional Affairs explained how and why employees are

involved in the credo survey:

> "We take what they (HR) call a Credo survey….[on] how are we doing on all
> pieces of the Credo….the [HR] look a[t]… the results of the survey... it's really
> important... to get like 100 percent... If you have a group and—[it] doesn't have
> 100 percent, the leaders have to drive, drive, drive, and say, okay, everybody's
> got to fill this out, everybody's got to take care of this, and if they don't, [then]
> you know that [it is] an issue."

Every group has a Credo Champion. These are mostly employees who review the

results of the credo surveys and get together with other employees to make

recommendations to management.

Finally, J&J also has a "Credo Challenge," in which each chapter or paragraph is

attempted to be applied to today's rapidly changing settings. In the case of employees, for

example, the Credo addresses their safety and security on the job. But in today's context,

it is impossible to provide complete job security. So this aspect of the credo is interpreted

to mean that J&J provides its employees with requisite skills to increase their

employability. As one senior manager from HR dealing with employee advocacy and

workplace engagement commented about the Credo Challenge and employee

employability,

> "We can provide training, and [put] individuals in challenging roles so that they
> can maintain their skills in the event of a downsizing. They have the ability to
> be meaningfully employed. So it's really looking at each element of the credo as
> a management team…[and] trying to understand—are we really behaving in a

credo-based way? Do we have a credo-based culture? And as a leadership team, how do we need to show [this]? So it's a really a reflective process for management."

The employees are not only engaged in J&J, but as internal stakeholders they are also respected, valued and treated fairly. In most interviews with J&J employees, generally the employees felt and expressed that J&J values employees, as commented by an employee when asked if J&J fulfills its Credo promise of valuing employees:

> "I think that they fulfill that [Credo commitment to employees] commitment….I would say that they do fulfill that, you know…I feel that we're respected, we're listened to, we're valued"

A high-ranking manager from the J&J office in India, who has many years of experience working with several multinationals, also attested to J&J's policy of valuing employees in these words:

> "They have a lot of respect for... other human beings. [In J&J] credos… the most important thing, apart from... customers… and... patients, are the employees. [J&J] appreciate[s] personal issues…. In Johnson & Johnson, the moment you come in, you can see that great respect towards the individual: They help... people, and they [take] time to listen to you…In terms of a work/life balance, they meet that standard 100 percent."

The fairness of treatment, among other policies, is amply demonstrated by layoffs. Employee layoffs have a major negative impact on employees seeing themselves as stakeholders (de Vries & Balazs, 1997; Mishra & Spreitzer, 1998; Allen et al, 2010). J&J has laid off quite a few employees in the last few years. Yet if employees are so important and are one of the main categories of stakeholders as per the credo, then why are these layoffs taking place? This question is all the more relevant if one recalls that General Johnson did not lay off a single employee during the years of the Great Depression.

J&J managers explain that layoffs are unavoidable in today's economy. But while J&J cannot ensure security of employment, it can ensure the employability of their employees. J&J managers add that when these layoffs are carried out, employees are kept in the loop. The interviewed employees also believe that J&J does a good job of communicating what the state of the business is, and is transparent and candid.

In addition, employees have an attractive severance plan. One senior HR manager commented on this:

> "It's the benefits, it's outplacement. We have an outplacement center [right here] in New Brunswick that provides one-on-one outplacement support to employees. So it's all of those things, I think that's a total package... we try to make it as… supportive as we can."

External Stakeholders

As pointed out earlier, it would be almost impossible to collect data and assess J&J's interaction with all its external stakeholders. Therefore, in this section we will discuss J&J's external interactions in two main domains: philanthropy (national and international) and government (national and international). Discussion on J&J's philanthropy is important as it expounds J&J views on the place of business in society that is relevant to our earlier discussion on CSR 1 & 2 and on CSP. J&J's interaction with national and international governments is important as it shows us how J&J creates new partnerships and engages with national and international stakeholders to promote mutual interests.

J&J philanthropy has become thoroughly professionalized, beginning with its professional leadership team. The philanthropic arm of J&J is led by a dedicated Corporate Contributions and Community Relations Department. The overall purpose of

J&J's philanthropic side, again based on its Credo, is to make long-term, life-changing differences in human health at a community and global level.

J&J's community-level activities are concentrated in areas where J&J employees live. This is in keeping with the mission statement's affirmation that J&J is responsible to the communities in which its employees reside and work.

The concept of community, as understood by J&J headquarters in New Brunswick, New Jersey, is not limited to its home city, but extends throughout the state and beyond. J&J's Corporate Contributions Department focuses on four areas: health care, academic excellence, art and culture, and environmental causes. In the state of New Jersey, the Corporate Contributions Department focuses on New Brunswick and the six New Jersey counties in which 80 percent of J&J employees reside.

An entire wing of J&J's philanthropy division is devoted to the management and training of doctors and health professionals. These programs are administered in collaboration with business schools around the world. As one mid-level manager from this wing commented,

> "It's like the professional development that our own... executives get, but... geared towards health care professionals, who really don't have business training... It is also part of [our credo of] responsibility—community responsibility."

The proactive aspect of the above policy becomes evident when J&J actually conceives, develops and implements its many community programs. The first step includes researching the terrain in order to understand what gaps J&J can fill in. Once these gaps are identified, then individuals, institutions and organizations that represent the leadership of the community in healthcare issues (for example) in a given county are

identified. The next step is to reach out to these leading individuals and organizations and include them in the philanthropic process of J&J.

According to one manager in J&J's philanthropy division, "[these] relationships take a long time to develop… It may be over the course of a lot of time before something actually results from... discussions." This manager gave an example of how J&J had recently reached out to key parties so as to benefit a particular community. In order to give New Brunswick residents access to a farmers market, J&J initiated discussions with Rutgers University on developing a plan for such a venue. As a result, J&J and Rutgers University not only launched a farmers market, but also developed other ideas to help the community that are now under consideration.

At the international level, too, J&J reports that it maintains a proactive strategy to involve and engage stakeholders. Most of J&J international philanthropy is done through different NGOs (non-government organizations), but this does not mean that J&J is uninvolved in the process. As we will discuss shortly, J&J has developed precise quantitative standards for NGOs to follow and selects its partners in philanthropy based on their reputation and capacity to deliver. Finally, J&J philanthropy staff is actively involved in need assessment in the countries where its funds and products are sent. For this purpose, J&J officials travel to collect first-hand information on what to send a developing nation that can be well utilized based on the existing needs and infrastructure.

J&J donates funds, medications and other health-related products throughout the globe. In order to illustrate how J&J actually involves stakeholders in this process, we will now discuss the specific example of how J&J works through an international NGO, the Elizabeth Glaser Pediatric AIDS Foundation, to reach countries with AIDS issues.

Rather than getting medical supplies, The Elizabeth Glaser Pediatric AIDS Foundation receives direct funds from J&J, one of the Foundation's largest corporate supporters. The Foundation also has several other private and public supporters. The Foundation's relations with J&J are based on a memorandum of understanding. Each year, the Foundation submits proposals for various programs, specifically outlining where the Foundation will be directing its funds, such as treatment of pregnant women with HIV. The funding approval process is based on an open dialogue between J&J's philanthropy team and the Foundation.

The senior official of the Foundation commented on how J&J's philanthropy wing is involved with it,

> "I would say that their philanthropy staff is one of the more knowledgeable. There are others that fit in that ranking, but I would say Johnson & Johnson is near the top in... terms of [their] depth of understanding [of] what it is that they are funding, and what... they [expect] as far as outcomes."

This official further commented on the J&J tendency to be more directive and involved in the way its money and medicines are being utilized by the Foundation,

> "J&J is very directive about their funding…this other major company [example of another donor] is at the one end of the scale. They believe that their support is well used, but they don't feel the need to direct it to specific countries and even very specific programs in those countries. Johnson & Johnson is at very much the other end of the scale."

When asked why she thought J&J is so involved in funding decisions, this senior official told the interviewer that the Foundation has several projects and numerous donors. J&J unlike other donors is more concerned about where its money or medicines are being utilized and how many patients benefitted from them. Other donors will just look at the Foundation's overall performance. She finally commented that,

"It's the way they view accountability for their philanthropy… it is a little bit [of] corporate culture to quantitatively define accountability."

The J&J tendency of being more involved quantitatively in its philanthropic work is also demonstrated in the way it approaches philanthropic programs with local communities. The overall strategy, goals and parameters of success are clearly laid out. Usually, a collaborative philanthropic strategy would begin by deciding the intended target population and then the strategy is divided into several components: inputs, methods & activities, overall outputs, and three stages of outputs (short-term, mid-term and long-term). In the first two sections, the overall strategy, participating stakeholders and specific inputs are outlined. In the last four sections, goals to be achieved at different stages of the program are laid down with specific standards to assess success.

Accountability may be one reason, but the same senior manager from Elizabeth Glaser also explained that the J&J philanthropy team also had a better understanding of the Foundation's projects because members traveled to the target countries and had a better grasp of on-the-ground realities, cultures and the needs of these countries. Therefore J&J's greater involvement and "effectiveness" may also stem from the fact that it knows more and therefore feels that it can contribute more positively to the appropriate use of its funds.

The fact that J&J's involvement with philanthropy is related to wanting to do a good job is evidenced in the following comment by a senior J&J manager from the philanthropy department. When asked about the scope of the J&J support as compared to other pharmaceutical companies, he replied, clearly illustrating that the J&J philanthropy side believes in creating programs that aim at fulfilling local needs,

"Well, I don't know [if] we are really wonderful by comparison to our peers [as far as the sheer volume of support is concerned]. I don't think anybody is doing it quite well [enough]if you ask me to look around and say who would you wish to be [more] like I'd say, 'nobody'… if you are not taking care of the fundamental needs of healthcare, someone comes in and says 'oh that malaria program,' but then that person [individual in a particular area] does not die from malaria—they die in childbirth. So in order to create your wonderful malaria program you have pulled the resources [from populations] who [we would] rather be immunizing [at ages under] two years old…so you need to figure out how strengthen the fundamental [healthcare] structure"

The Elizabeth Glaser Foundation, according to a high-level manager who regularly maintains ties with J&J, has worked with many other large pharmaceutical companies. According to this manager, the main issue in donating AIDS medicines is that one has to understand and respect the culture and specific needs of the country that the help is directed towards. Otherwise, the aid may as well be stopped.

This manager added that J&J, unlike most pharmaceutical companies, starts its projects from a needs assessment of the target countries. It first tries to understand the culture of the country of the work or product donation. Comparing J&J with other pharmaceutical companies that donate to the Foundation, she commented that,

"J&J does the opposite….they look to understand the culture of the country with which they are working or providing donation [to;] it's a 180 degrees away from what I have seen in other companies."

This process of assessing needs and of raising cultural awareness takes place in two ways. First, J&J partners with organizations and individuals who have already been in the field for some time and who are aware of the issues and cultural imperatives involved. Second, J&J managers frequently travel to these countries in order to understand the on-the-ground realities and to obtain first-hand data.

In the first instance, J&J enters into new partnerships with individuals and institutions they believe have the capacity to help. According to a senior manager in J&J's philanthropy side,

> "We have a strategic plan for our philanthropy… We have strategic focus areas and outlooks…. So if we were working with a new partner we would be working with them because we believe that that organization can deliver."

In traveling, J&J enters a new country or field through partners who have not only the capacity, but also the experience and good reputation in the subject country or field. This approach will be further examined in the Tibotec stakeholder strategy discussion below.

The method is further substantiated by a comment from a top level manager from Elizabeth Glaser Foundation,

> "I don't think many of the folks have actually worked in many of these countries—meaning... they don't actually spend time working in the field of public health directly. But most of the J&J philanthropy staff travel to the program country... to see at the clinic level what's going on." Overall, it is the job of the philanthropic arm of J&J to [be] very respectful... We may have [the] strategic intent of helping people, but that's not easy sometimes. We need the help of people outside of our bubble... In a corporate setting we work in a bubble. You need people outside the bubble who can guide you, partner with you."

Finally, the J&J decision-making process also involves major stakeholders. For example, the quoted manager from the Elizabeth Glaser Foundation explained that the Foundation is intimately involved in the decision-making process of the philanthropic arm of J&J. She commented that, "the Foundation gets involved with [...] J&J decision making in [...] philanthropic efforts—from the senior level, to lower levels of management."

Turning to J&J's interaction with national and international governments, J&J's Government Affairs Department is primarily a lobbying department. The term lobbying may carry bad connotations, but as one high ranking official in the department commented, this department lobbies to shape government policy in order to align it with the "interest of the corporation, customers,... our business partners, and our credo." Like every other aspect of J&J, this department is also guided by the company's credo. According to the same high ranking official,

> "The Credo governs the whole company. It's our mission statement and our charter, drawn [up] about 65 years ago… It [affirms that if the company is] customer-focused, [then you] are... looking at the big picture, in the long term, and not just the short term."

The department itself is in charge of the company's government relations across the globe. Its offices are divided to cover the US and other areas such as the Asian Pacific, Canada and Europe.

Within the U.S., a lot of this department's efforts are devoted to defensive measures, such as preempting or amending negative proposals. But this department also looks to the future and seeks ways both to resolve pending issues and to find support for the company at the governmental level. For example, as one J&J official stated,

> "In the US right now… the biggest thing happening...is that the administration is trying to write, [or] rewrite... rules governing [the] American healthcare system. It is [a] broad-scale reform, and within the healthcare [community] there is a lot of interest [in] how it [will] turn... out. There are some pieces of it that we are against [and] that we are trying to stop. Some pieces… we think [are] important to bring about, even though... in the short term [they might] cause the company some problems. We are trying to align the industry to our stance. A lot of them disagree with us. And the[re] are things that we all agree [on] that need to be done as an industry. So we are working on that together."

At the global level, the department pursues similar aims of developing mutually beneficial relationships in various countries. One of the top managers in J&J's Government Affairs Department offered examples from China and India, the two biggest focus areas of the department.

China is in the process of reforming its entire healthcare system. J&J got involved in discussions with the Chinese government and many other stakeholders, such as the World Health Organization, about what that system should look like. In the course of these discussions, J&J made numerous recommendations, many of which have been incorporated into Chinese government plans.

India, a country in which there is no universal medical coverage, has also begun to look at its healthcare system. Here again, J&J is part of this discussion and has brought together stakeholders who know a great deal more about Indian culture and needs than the company does. As explained by a senior manager from the Government Relations Department, J&J already has a major presence in India and is respected and trusted based on its products. To build onto this trust and eventually get involved in the discussion on healthcare, J&J began going to like-minded companies in healthcare in both Indian and international areas. They drew in a number of trade associations of businesses and other multinational associations in the field of healthcare. J&J personnel also volunteered and spent time setting agendas for those organizations who can then speak on behalf of that whole constituency. J&J also sponsored a number of national summits on healthcare which brought a much broader representation of stakeholders like international experts, patient organizations, physician organizations and governmental representatives to have an open discussion around selected topics of healthcare reform. A

J&J manager described the process by saying, "this sort of sums it up— it is concentric circles of reaching out."

A full review of the benefits and the reasons behind J&J's involvement in helping other nation states to develop their healthcare systems is beyond the purview of this section. But to offer a brief summary, J&J already operates in these countries and believes that good healthcare and health insurance systems are mutually beneficial to the company and its customers are twofold.

First, their view is that good policies will increase J&J sales in these countries directly, by increasing the number of people able to afford J&J products. Second, they believe that elevating J&J's reputation at the state level can indirectly lead to an even greater J&J future business presence in these countries.

The more pertinent question at this point is how does J&J actually involve stakeholders? The J&J official explained that,

> "In China we are a very well known company…. so we came forward and said that we have some ideas. They said... yeah, we want to talk to you. We know [that] you are a trusted partner, [that] you have a lot of global business and we know that you are an honest broker most of the time, so let's talk."

He further elucidated on how J&J partners with other stakeholders in China and India:

> "We also partner with other people [whom] the government trust[s] and [whom] we trust. We have partnered with Harvard University [and] Peking University, which is the top university in China. [We also] partnered with one of the big consulting outfits.... So we had a number of reports that we co-developed or [jointly] wrote that went into the decision-making process, into... different parts of the system, [concerning] different contentious issues. I don't think that the government could have come to us and asked for our output, because we are a private enterprise. But once we have raised our hand, they understood that we are a valuable contributor."

In conclusion, we can see that J&J at the corporate level attempts to engage with its internal and external stakeholders. In its view, the core of this stakeholder strategy

comes from its Credo. Based on the Credo, J&J interacts with community organizations at local, national and international levels. J&J's engagement is not limited to giving money or drugs, but at a deeper level in which J&J assists communities based on their needs. This deeper involvement necessarily produces a more profound understanding of the culture and issues of certain areas, which is not possible without a comprehensive understanding through developing long-term partnerships.

J&J also involves its employees in decision-making and most importantly in trying to gauge its performance in achieving the precepts of the Credo. For this purpose, J&J has created an elaborate department of Employee Advocacy and Workplace Engagement and conducts several surveys to take the pulse of employee opinion at different times.

Finally, J&J also engages with governments. With the US government, the purpose is to preempt possible legal or structural changes in the pharmaceutical industry and to keep the government informed of J&J's interests through a dialogue. J&J also interacts with several foreign states with the aim to help them develop their healthcare infrastructures and in return develop goodwill for J&J.

Tibotec: An Example of Proactive Stakeholder Management

Tibotec (TT) was created primarily as a research organization in the 1990s and was acquired by J&J in 2002. TT specializes in research and development and in the sale of medications for AIDs and Hepatitis C. Before the acquisition of TT, J&J did not have a foothold in the field of AIDS and HIV medication. J&J's new entry into a field that has been dominated by its competitors gives us a unique look into the way the company got its foothold in the AIDS area. It must be noted here that J&J was not a well-known name

amidst the community of AIDS activists and medical consumers, and this remains the case to this day.

TT is a name that was relatively well known in the industry, but, even today, not many stakeholders know of the link between TT and J&J. Thus, TT provides a good example of how J&J was able to establish itself in the AIDS field without being able to immediately leverage its good name and good will from other areas.

Entering a new market was even more difficult for TT, as many AIDS activists in general do not think too highly of existing pharmaceutical companies. As one top TT manager explained,

> "There are many other companies who have been in…HIV drugs [for] quite a long time, and [AIDS] activists have had very good relationships with some of those companies, and terrible relationships with [others]. So [these activists are] coming in with [slanted] expectations... By and large, they feel that we are big business, big pharma, we're in it for a dollar…. They don't believe that the pharmaceutical companies that are in this [can] really be partners with them."

Building trust was not easy in such a situation. It required transparency and open communication to grow. Therefore, TT invited activists and AIDS/HIV-healthcare-related individuals to a discussion from the very beginning. As one TT manager involved in drug development explained,

> "[At] the earliest development stages of our (TT) drugs, [we] said look, here's what we're planning to do. Do you have input? [They reviewed] all of our clinical trials, they [saw] the protocols, they [understood where we are looking] for sites to do these studies. They [recommended] doctors that we go to, [in order] to have them participate in [our] trial."

This approach gave the activists confidence in what TT wanted them to be: not just occasional consultants, but permanent partners. This sense of partnership allows the activists to feel that they are a part of the company and its processes. Eventually, this can result in positive endorsement by the AIDS community when the actual product reaches

the market. For this to happen, not only it is important for the activists to be included in the discussion early on, it is imperative that they understand they are being listened to. As one TT manager from the department of Drug Development explained,

> "It's not saying yeah, yeah, come on in, and give us your feedback, but then you don't act on it. [What] very early on...won us some... trust [was] not just them having them have a seat at the table, but... listening, really listening and valuing the feedback that they provided."

This TT concept and philosophy behind partnering was aptly described by a senior TT manager from Global Professional Affairs:

> "Partnering means you carry your own load. You are an active participant…and that you're transparent about what you're doing…Part of being a partner is finding that place where you might disagree, and if you can't find consensus, at least you agree to disagree, and you do it in a respectful way. That doesn't happen very often, but when it does, [it] become a way of working within... the AIDS communities, and the national organizations. And when they see that we're willing and able to work in the same way, it really gives us [the] credibility... we need to be a full partner."

In addition to coordinating efforts with AIDS activists groups, TT also maintains direct contact with AIDS patients. It is in fact the only J&J subsidiary that has this type of contact. By law, pharmaceutical company sales forces are not allowed to have direct contact with patients. Instead, TT maintains contact not through sales, but via 10 community liaison managers. These liaisons, as explained by a senior Global Professional Affairs manager,

> "Are not compensated based on sales, and they actually go in and work with patients...they (the liaison managers) have developed [cultural] disease-awareness modules. We have a "Jeopardy"-like game, [which] we use with patients to help improve their understanding about their disease... It's a non-selling situation, it's more of an empowerment for people to understand why it's important to consider whether or not they should be on therapy (not TT products, but therapy involving any AIDS medication)… [It is about how patients can] talk with their doctor, how to talk with their nurse practitioner…about their issues, their problems."

Based on the above philosophy, TT managers—especially those charged with contacting and involving the community and other stakeholders in the AIDS field—are constantly striving to bring together national and local stakeholders. They are constantly returning to their key community stakeholders in order to keep them informed of healthcare reforms and changes in government policy. In return, they get feedback and earn trust. Their main goal is to align the concerns of the activists with those of the company and of other national and governmental stakeholders.

What must be kept in mind here is that all the above efforts in J&J's views are based on the J&J Credo, which states that customers are the most important stakeholders. In the case of TT, this means that AIDS patients are the ones who should get the benefit of these collective efforts. In the end, all the efforts lead to the development of better products and greater satisfaction for AIDS patients' advocates. This will be discussed more fully later in this section.

An important aspect that will be discussed in greater detail in Chapter 7 is the understanding that if partnering with the AIDS community is deemed important by TT in terms of its organizational strategy and inviting the input of the AIDS community is deemed vital enough to be incorporated in TT's decision-making, then TT will need to create organizational structures and departments that focus on catering to AIDS patient/customer requirements during product development. Resultantly, TT's organizational structures will become aligned in such a way as to center on the AIDS patient/customer. This process again conforms to the precepts of the J&J credo.

The discussion above is based on input from several site visits and in-depth interviews of six TT managers in the US, one manager in its regional office in London,

and two J&J managers who work for the J&J Foundation and deal with TT on regular basis. But corroborating evidence must come from stakeholders themselves. For this reason, we will now discuss what stakeholders report on TT's approach to partnership and stakeholder management. This evidence comes from two in-depth interviews with the AIDS Treatment Activists Coalition (ATAC) members (one a professional HIV/AIDS advocate for over 20 years and the other a volunteer of over 15 years of experience) and the ATAC Pharma Report Card (2009). A detailed discussion on how and why ATAC was created is part of the next section, when we discuss the importance of organization as a salient stakeholder feature. But note that ATAC consolidates the voices of AIDS activists, thus truly represents patients' concerns.

In describing TT's proactive attempts to bring stakeholders to the discussion table, one ATAC official remarked,

> "The company (TT) proactively called together members of the activist community in both the United States and Europe at a very, very early stage in the development process… The company took a lot of time actually, going through many of the details of…their proposed clinical trials, before the trials were launched… they didn't give in to everything that the community asked for, but in my perspective, they did a pretty good job of explaining why they [chose] not to accept, or incorporate [such requests]. Again, it does [not] mean [that] we agree with the choice[s] they made, but at the very least, they made the effort to explain why they disagreed with us. So that's important."

Besides product development, TT has established a separate Department of Global Access and Partnering, whose main function is to attempt to engage external stakeholders and to apprise J&J management of the views of the groups involved. As one senior manager in this office stated,

> "80 percent of my time, [is devoted to] outward looking…[to f]rankly using my relationships to understand what the concerns are, and then trying to apply those to the counsel and advice I give [to] senior management on where we go with issues, on how we make decisions."

The actual stakeholder engagement happens through an advisory board. This board consists of a representative sample of TT's key customers who include: very high-level prescribers, key opinion leaders, community physicians, high level physicians, nurse practitioners and a representative sampling of patients. Once this board's meetings are concluded and TT has acquired data directly from the users and healthcare professionals (a source of practical data about TT products), TT staff then meets with community advocate groups. At this stage, all the information collected from the practitioner group and patients is exchanged with the AIDS advocacy groups to see if TT's conclusions match those of the advocacy groups representing customers (patients). This is a long process of consultation, involving numerous external stakeholders leading to conflicts of interest. According to one TT manager, "I think it's important to understand that 'consensus' does not mean that everybody agrees." He further explained that consensus is usually achieved, but whenever there is disagreement on a major issue, the TT team always refers back to the J&J Credo—to a conflict-resolution process that will be discussed in detail later in this chapter.

This strategy of engaging stakeholders and of bridging the gap between what the stakeholders require and what the company ultimately decides is followed in TT offices across the globe. TT research facilities are in Belgium, with offices in London, Cork (Ireland) and New Jersey. A senior manager at TT Communications and Public Affairs Department in London explained that their office constantly interacts with external stakeholders:

> "Our group [interacts] with physicians. We interact directly with patients, [and] indirectly with [them] through community advocacy [groups]. We interact with [NGOs and IGOs] … our group interacts a great deal with external stakeholders."

These interactions result in a pro-stakeholder approach in thinking at TT. For example, the manager quoted above also remarked that, as a result of all the interactions described, when,

> "Somebody [in TT] says to me, for example, 'Oh, we think we're not going to do that clinical trial now, because it's too expensive,' then I will always translate that into, 'okay, well what's that going to mean for the stakeholders that I'm going to interact with—how are they going to see that?'"

She further added that as a manager in the department of Communication and Public Affairs her job is to comprehend potential stakeholder reactions to decisions made by TT, and to create a bridge between the reactions and the company's decisions. In this way, as commented on by another senior TT manager, "stakeholder reactions are always going to be critical to the decisions that we're making."

The discussion above attests to the efforts that TT has made towards involving stakeholders at an early stage of product development. There is further evidence that TT, by basing itself on the J&J Credo, does not cut corners, but rather goes out of the way to satisfy activists by maintaining an open transparent atmosphere. The ATAC group, as expressed by one of its officials, feels that there were times when TT could have cut corners, or could have disinvested from a drug by concluding that, "This is more trouble than it's worth, we don't think this is gonna be a blockbuster, why continue to develop it?" This evidence comes largely from an ATAC Report Card that it issued to all pharmaceutical companies, based on their performance in the field of AIDS medication and product development. The Report Card covers many aspects of the AIDS medication industry and is the first such effort by any AIDS activist group. The pharmaceutical companies are assessed and graded on many factors. TT achieved an overall 'B,' the highest grade given to any company.

As pointed out, these companies were assessed on various parameters, including: do they have fair marketing practices (to avoid overstating benefits or understating side effects); do they follow FDA guidelines and warnings which are based on FDA post-marketing studies, but are non-mandatory and do not carry FDA fines; do they cooperate with community requests for price setting; and do they include women and African Americans in their trials (to maintain the required demographic diversity in their trials). Based on all of these parameters, TT came out on top of the list.

> "I think that... even members [who] probably had some of the most adversarial feelings towards the industry, all of us, would have to agree that, on average, Tibotec gave us more of what we were asking for, than probably any [of the] other companies," commented one ATAC official.

Although the significance here is that TT got a 'B' in the ATAC Report Card and no firm received an 'A,' why exactly did TT not earn an 'A'? Unfortunately there is no evidence reported that answers this puzzling question directly, so we look for an explanation by deductive methods. One is that we try to see on the actual report the difference in definition between an 'A' and a 'B.' We can go over the comments and assessments by ATAC regarding TT in comparison with other companies. We can also analyze negative evidence that came out against TT in our interviews from the ATAC activists and see if they have given some clue as to why TT missed an 'A.' Finally, we can also look at the methodology of the Report Card for any clues.

As per ATAC's Report Card, the grade definitions are as follows: F (falls significantly below minimal expectations of corporate performance); D (poor performance when compared to that of peers); C (acceptable within expectations performance); B (very good performance with actions beyond expectations); A (excellent performance demonstrating corporate leadership in the area). So based on the above, the

only difference between a 'B' and an 'A' is that an 'A' pharmaceutical will be a leader in the industry. But the noteworthy thing is that leadership in the industry is not defined in the report. The Report Card puts TT and Merck at the top of all the pharmaceutical companies, and in relative industry terms these two companies are the leaders in the industry.

All organizations in the Report Card were assessed in five major areas: Drug development portfolio and plan; Access to the drug; Pricing; Community Relations; and Marketing Practices. Specific comments in each category are given to assess merits and demerits of all pharmaceutical companies. In TT's assessment all comments address their merits are and there is no criticism of any practice, not even a single suggestion to improve any practice. In the report for most other companies, negative comments show in these categories. Finally, the only suggestions for improvement are two minor changes requiring TT to disclose the number of patients in its patient assistance program and to improve their co-pay program.

Our interview-based inquiry also does not give us any negative evidence against TT or any other direct evidence to show why TT was given top marks, but not an 'A'. The interview evidence is based on two officials from ATAC; one of them has dealt entirely with TT for almost five years and the other coordinates information from all pharmaceutical companies. So we have both TT-specific and industry-wide comparative views. Both interviewees categorically placed TT in the highest rank based on its proactive approach to involve all stakeholders and especially ATAC, its marketing and pricing practices, and the fact that they believe that TT not only involved them but also incorporated their suggestions in their decision-making.

From all of the above discussion, we still have not found the answer to why TT was given a 'B'. All of the evidence suggests that the interviewees and the Report Card have nothing negative about TT practices. One explanation here could be found in the methodology of the Report Card itself. In the interviews, specific questions were asked as to how categories were operationalized and quantified. The interviewees replied that some of the categories like pricing could be quantitatively measured, yet there was a lot subjective assessment done on the part of the Report Card writers. One of them commented,

> "Information that was given to the membership in order to grade….based on looking at that information, each individual member decided, from a subjective place, was that too much or too little? ….so it wasn't like there was a scale where a group decided that if a company launched at this percentage above the rest of the market, or that sort of thing, again it was relatively subjective"

To sum up, there is no evidence that fully explains why TT, the best performer, was given a 'B.' On the other hand, there is substantial evidence from different sources that for all practical purposes, TT leads the industry in its proactive practices. The issue could well be that this was the first Report Card of its type and, therefore, the scales were not yet perfected and made completely quantifiable. Lack of objective measures for the categories resulted in subjective assessment of the companies, with an underlying attitude that no company should get an 'A,' which could diminish the possibilities of any future improvements.

Coming back to its proactive policies, TT does not work exclusively with ATAC. Its outreach extends to several other activist groups and state and national bodies. It works with the Fair Pricing Coalition—an activist group that advocates fair pricing of

HIV and Hepatitis C drugs by pharmaceutical companies[37]. It also works with National Alliance of State and Territorial AIDS Directors (NASTAD). NASTAD maintains an AIDS Drug Assistance Program (ADAP) which in turn operates Crisis Task Force, whose main goal is to get concessions for HIV/AIDS drug pricing for all national ADAPs[38]. TT also works with other local and national organizations such as the AIDS Institute and the National Minority AIDS Council.

At the federal level, TT coordinates its efforts with the J&J Government Affairs Office to make an impact on policies. The Government Affairs Office covers all J&J products and policies, while TT has a specific team member who serves as liaison with federal and state government bodies that work directly on HIV issues. One manager involved in most of these activities mentioned, "We even [took] our board of directors... down to D.C. and took them on a Hill visit for them to lobby and talk to the Senate and the Congress."

In another instance, one AIDS activist, attesting to TT's collaborative policy, stated that,

> "TT listens to the activists who have direct access to the patients and does its trials aimed at the right demographics of AIDS patients."

And as another activist explained,

> "TT did this great trial, which was 70 percent women... That's never been done [before]. Its focus was to really look at women. They wanted this trial [to] yield tons of information about women… [This] was incredibly important, and that's a message that... every company needs [to hear]."

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[37] Fair Pricing Coalition Website on Oct 2nd, 2010: http://www.fairpricingcoalition.org/
[38]http://www.nastad.org/Docs/highlight/2009327_ADAP%20Crisis%20Task%20Force%20Fact%20Sheet%207.1.pdf on Oct 2nd, 2010

TT not only collaborates with NGOs, activists, physicians, and patients but also—if products for its patients can be improved—with its competitors in the field. As one ATAC official explained,

> "TT [set] a good example, they did… their first few trials with one experimental agent, and the other agent was their goal. But still, that was very radical to have two experimental agents in a Phase 2 trial. But in addition to that, they made their drug available to Merck… So they allowed that drug into Merck's expanded access trial. You know, there was this collaboration, and they had data early on to show that the drugs were okay together...So that allowed them to form that kind of nice collaboration…and I think that's to the credit of TT."

In sum, TT provides us with an excellent example of J&J breaking into a market in which J&J does not have the advantage of an existing goodwill and reputation. TT proactively sought the advice of relevant stakeholders before the launch of its products. It involved NGOs and activists not as mere participants but as permanent partners. It created a department of "Global Access and Partnering" to collaborate with external stakeholders. It also has an advisory board consisting of all major stakeholders in the field for consultation and discussion. In short, it is fair to conclude that at all different levels, TT's main strategy is to produce the best product, based on their Credo that customer welfare is paramount. And TT achieves this strategy by uniquely involving diverse stakeholders at different levels.

Mid-Sized Organizations

All of the mid-sized firms reviewed are invested in positive long-term relations with their stakeholders, both internally and externally. We will discuss several examples of these relationships in the following sections.

Internal Stakeholders

Employees as internal stakeholders are important for mid-sized firms as well as at large ones, and engaging employees in the decision-making process is a developed strategy within adequately organized structures.

King Arthur Flour (KAF), as pointed out, is a 100 percent employee-owned organization. Employees as owners create an atmosphere in which employees want to be heard, since they have a bigger and more important stake in the organization. Therefore, in KAF there are established structures and practices that engage employees in the decision-making process.

Most policy work is the responsibility of the Strategy Committee, which consists of six to seven key managers. But all of the decisions are discussed regularly in monthly meetings with the whole company that are known as the 'town meetings.' In these meetings, all participate, and there are group discussions on the important issues. The strategy team defends its decisions, but, as one employee explained, if "the whole company said, boo, this is terrible, they probably would go back and discuss it again." Decision making is not based on any kind of voting system, but all matters are discussed, and all important documents and items of information are provided to the employees prior to all meetings, for an informed discussion. As pointed out by a senior HR manager,

> "People are welcomed and encouraged to ask a lot of questions, and we have a suggestion box. So if there's a question I don't feel comfortable getting up and talking about… I can put it in there."

It must be noted here that KAF is not really run as a democracy. Therefore, not all suggestions are voted upon or incorporated in the decision-making process. Sometimes this can lead to frustration on the part of those who feel that, as employee owners, they should be listened to. But as we have discussed in the previous paragraph, there is open

communication, dissemination of relevant information leading to transparency and encouragement to participate in decision making by managers. The effectiveness of this quasi-democracy is corroborated by employees, as one employee put it,

> "I've seen examples of… people's suggestions and comments and ideas actually influencing how we do business—things like the kinds of benefits that we offer to our employees. Even what the cover of our next catalog is going to look like. Sometimes our merchandising department will show us three different choices for the catalog cover, and we actually vote on it, and they decide, based in part on our feedback… So I definitely have seen my own input, as well as the suggestions and ideas of other employee owners, being implemented and turned into something positive for business."

Employees are even involved in layoff decisions. As one employee commented,

> "I feel like there were conversations happening. It was very 'code red'… we talked about it at every town meeting. .. It doesn't mean [the layoff] was easy, it doesn't mean anything, and it doesn't mean that people were prepared for it…None of us were prepared to have something like that happen. But…overall I think we handled it in the most humane, fair, equitable way that we possibly could."

The "code red" mentioned by the employee refers to a system that the organization has developed. Certain issues are coded red, blue or green based on their importance to the company and its owners. So for example, if due to economic reasons some employees have to be laid off; this will become a "code red" situation. It will be discussed in the monthly meetings and be open to suggestions from all the owner/employees. The main idea behind these practices is to have transparency and open communication on all important issues.

For all of these organizations, their values or their guiding principles are a serious matter. As we will see in the next chapter, values play a vital role in creating and maintaining an organizational culture in these firms. Therefore, one important example of employee engagement is employee involvement in the development of KAF values and

mission. As a senior HR manager explained, this process started with smaller meetings within departments to discuss values. Then there was a town hall meeting where the strategy team was asking for feedback it,

> "Was up front with a flip chart—'Throw out adjectives, what describes us?'" Finally, based on this input, the whole mission statement was crafted. As the manager commented, "So… truly getting people to be a part of that process, I think was very valuable."

Turning to Dansko again, there are procedures and structures like regular meetings within different departments and those that include the company as a whole. As already pointed out, these organizations are mid-sized, but in all three cases, they are expanding. As they grow, they are also becoming more sophisticated and are developing more intricate structures to organize themselves. Generally, as explained by a Dansko HR manager, Dansko does a,

> "Good job communicating. As I said earlier, we meet once a month with the whole company. Managers are always meeting with their employees. There's good communication. I don't think you [can] ever have enough lines to do communication."

But more specifically, one 'great' example of employee involvement, as explained by a senior Dansko HR manager, is their company-wide employee engagement survey of September 2008. That was about the time they moved into their new, completely 'green' building. This move started a discussion among management about how it would be good to assess the impact of this move on organizational culture and how employees in general felt about it. They also wanted to know how they are doing organizationally from the perspective of the employees. The management did not want to make any assumptions and wanted "to create as many avenues for communications [as possible], for everybody to be able to say, hey, this is how I am feeling."

The survey covered all major aspects of the company such as employees' attitudes towards Dansko policies and values; the fact that Dansko is a B-Corporation; working conditions and other work dynamics; the company ESOP (employee stock ownership plan); Dansko's core values and green initiatives; and what do they think about management practices and work space flexibility. The main idea of the survey was to create a new comprehensive communication channel and close any gaps between employee perceptions about the company and management understands of the employees' perceptions. The best evidence of the importance and efficacy of this survey actually comes from the employees. As one of the employees commented when asked if there are a lot of negative views about Dansko, the employee replied,

> "I honestly cannot foresee Dansko getting a bad rating, because employees usually come here and stay. There are very few who leave... [But if there is some negative evidence] I definitely think it would be addressed... I don't think that anything [is] really swept under the carpet here... I think everything is addressed."

Employees are not only involved in decision-making but they are also empowered at Dansko. As one manager commented,

> "We want people to be who they are, we want people to bring their talents, we want them to come here, we let experts be experts. You know, we want people to make judgment calls... We want people [to] want to be empowered."

One of the senior managers from the finance side of Dansko justified the company's claim that employees are their important stakeholders by pointing out that they,

> "Have an ESOP program... it's less than five percent right now, but that [is] still, for our employees...a significant stake on top of all of the benefits and things that we do."

He further added that they have a very generous insurance plan for employees, as well as other benefits. These were the more tangible benefits that Dansko employees get. As for morale-boosting benefits, he added that,

> "I've worked in other places where you can see, you can see the difference, in terms of how people are treated in terms of the benefits that are conveyed. Also, in terms of how the message is communicated from the founder of the company that they care. I mean, I can speak to all the individual things that they've done to help people out in certain situations. And they've given opportunities to help people out that they might [not] have gotten in a different company or a different culture."

At Give Something Back (GSB), employee engagement is also very high. There are formal and informal structures for employee engagement. There are departmental meetings and meetings between departments. But these meetings are mostly for the sake of getting employee input on work-related decisions. There are certain issues that involve company-wide policies and overall company mission statements, in which input from the employees is also taken. The mission statement was formulated with the help of the employees, and there was a major effort by the management to involve all employees in its formulation. As explained by one of the HR managers, it, "took a lot of coordination and it really came down to getting a lot of current employees involved—half-day training sessions, [a] petition statement, [and] surveys." She further added that, "there are lot [of] decisions at a bigger level that are made or rolled out to the departments and the organization as a whole. So it is very inclusive… for all of the employees."

Employees also get a number of benefits. GSB takes care of its employees. As a high-level manager noted,

> "I think we are probably a bit above average. Considering that we are one of the few companies that pays a hundred percent of the employees' health premium, which is quite a big ticket."

Another manager stated that,

> "Employees are paid on a comparable pay scale to the same positions in other competitors. So we are paid the industry standard… the same pay as that billion-dollar companies provide to their employees…There is a real opportunity for advancement and personal growth for employees…there are several cases of employees being promoted and even reaching the managerial level of this company…I just believe that [the] management… really does care about its employees."

As with all other firms, GSB also defends its layoffs on the basis of economic reality. In the interviews, it was clear that this was considered a difficult decision taken to keep the company operating. As one employee remarked,

> "I do know that Give Something Back did consider other options, such as, if I may say, closing down one day of the week to reduce overhead, further employee reduction and wages… , etc. And after reviewing all the options, they decided that the best course of action would be to layoff a few employees in order to reduce overhead, and keep our financials afloat."

The testimony makes a clear point: that the employees actually understand, and to some extent endorse, company decisions regarding layoffs. They are onboard because they feel that the company was transparent in its dealings. As one employee stated, "During one review session with the company, management did in fact state that they reviewed these [above mentioned] options, so they were very transparent about this, and it's been a fact."

The second level of justification, as with other firms, is that once it decided to do layoffs, it was done fairly, equitably and as humanely as possible. As an employee commented, "I believe they were treated well…a few employees were actually helped out by the Human Resources manager in finding jobs elsewhere."

Corroborating evidence from employees supports management's claims at GSB. Employees feel that they are treated as stakeholders and with respect. As one employee put it,

> "Our manager is receptive to feedback in regards to how I think a position could be done more efficiently or a process could be improved. Such as...I view my position and know most of its facets, I can generally give good suggestions on how things can be improved, and match and realize that. So they are very receptive to feedback, overall."

Another employee added the following:

> "There's a lot of team meetings, a lot of working together. And managers really take the time to talk to you, and see and learn what you're about; learn about how you see things in the workplace, where things can improve, and where things are going well. And you never feel small in this company."

We can clearly see that the firms discussed consider their employees an important resource. Employees have autonomy, more decision-making power, decision making is very inclusive, employees are valued, and their opinion is not only actively sought but valued. In this regard, the best evidence comes from the way these firms handle layoffs. As we discussed, even the employees in these firms believed that the layoffs were done with: transparency, employee engagement and fairness. Overwhelmingly, the employees agreed there was no way to avoid layoffs—they were a necessary evil.

External Stakeholders

In contrast to J&J, mid-sized firms had interactions that do not actually lead to decision-making situations, especially in the case of external stakeholder input. On the other hand, internal stakeholders, or the employees of these organizations, are involved in decision-making processes at various levels and in various ways. There is, however, one exception in GSB, a firm that has a unique model for involving external stakeholders in its philanthropic decisions.

The important question is why in mid-sized firms are the external stakeholders usually not involved in decision-making processes? If these firms are proactive stakeholder firms, then they should go out and seek new stakeholders as in the J&J case. There can be many reasons for this difference, which will become clearer as we proceed in this section; but in brief, the limited involvement of external stakeholders could be based on many factors: smaller sizes, private ownership structures, limited scope and impact of their businesses, or characteristics of their respective industries. Moreover, most such firms suffer from organizational structures that are inadequate to accommodate growth in the firm. Therefore, we must proceed with the understanding that two of the three privately owned mid-sized firms reviewed here are not strictly proactive stakeholder firms.

There are strategies that these firms use to understand their customers and their needs. For example, King Arthur Flour (KAF), basing itself on its mission statement, believes in educating the community. To this end, they use their facilities to invite local people to learn how to bake, free of charge. The baked goods are then donated to local homeless shelters. This illustrates how such outreach programs, based on guiding principles, mutually serve two purposes. That is, by teaching people how to bake and providing the tools for them to do so, KAF not only feed the homeless it also creates potential customers for its baking products. It must be noted, however, that this type of involvement cannot be compared to the case of J&J. Nor can this activity be termed proactive engagement. KAF also sends its representatives to the Vermont Employee Ownership Center (VEOC), a non-profit organization that advises organizations in Vermont and Massachusetts on how to institute employee ownership programs. Finally,

KAF is also a member of B-Lab—a lobbying group for social missions—with the aim to create benefits for firms using value-based business practices. Dansko, another mid-sized firm, does customer surveys to assess customer satisfaction. As far as its interaction with community is concerned, it has established a foundation which provides funding to local charities. These donations are selected based upon the recommendations of employees involved with the work of these charities.

Of the mid-sized firms, GSB differs from the other two regarding the role of external stakeholders. This company does not involve external stakeholders in its organizational and business decision-making; rather, it involves customers and clients regarding its philanthropic funding. Nonetheless, GSB's customer involvement is not like J&J's dialogue-based involvement of external stakeholders. We will observe in the following paragraphs that in GSB's case, customers vote but do not really have a dialogue with the organization over philanthropic decisions. Therefore, GSB cannot be termed as a typical proactive organization.

The difference between GSB and other mid-sized firms in our study is that GSB presents a different business model, as we will see throughout this work. This is an organization that donates most of its profits to various NGOs across the country. Yet its employees are neither expected to become involved in social causes nor likely to get higher performance evaluations if they do so. As employees, they are expected to be thoroughly competitive and professional. If they wish to do something for the community, they can do so on their own.

The difference between this approach and that of other similarly sized firms is that in Dansko and KAF, stakeholder and philanthropic culture begins from the top and

permeates down. But in GSB, the normative stakeholder approach only exists at the top. It is the owners who, instead of taking the profits, donate them to various causes. Meanwhile in the rest of the firm, the employees and the managers are fiercely competitive and their stakeholder relations are instrumental in nature.

Precisely how does the donation process within GSB work? As explained by the owner and a senior manager, it begins with the mission statement, which stipulates a distribution of profits to various NGOs and other social causes. The unique character of this policy becomes apparent in its mechanics, especially with regards to locality.

Most of GSB's customers are located in the California Bay area. But it also has customers throughout the U.S. Generally, the donation process is predicated on the belief that only local firms can assess which NGOs or organizations are doing credible local work. If GSB has a customer in Portland, Oregon, for example, they defer to their customers, who comprise local companies and are the most credible source of recommendations for local NGOs.

Geographic areas determine the allocation of NGO donations. GSB customers within those geographical areas can vote for recipient organizations, and the funds are then distributed in proportion to the number of votes cast for the organizations of that area. For example, if there is a certain amount of money allocated for New Jersey, based on number of customers and volume of business done by GSB in New Jersey, GSB customers in New Jersey register local organizations for funding with GSB and then vote on them. This voting at the end of the procedure determines the amount of funds given out to these NGOs.

In order to qualify as a recommended NGO or charity, an organization must be registered as a 501 C3, charitable nonprofit organization. Secondly, they must have a local focus. This means that an organization that would receive money in New Jersey must work for the New Jersey community. This would exclude groups like Greenpeace or Katrina Relief for New Orleans. Thirdly, GSB does not donate funds to organizations that lobby for specific legislation. Last, monies are not donated to religious organizations such as churches, unless these organizations conduct community work independent of their religious functions.

Organizations that meet all four criteria are placed on a regional list based on input from the customers of that region. The process begins with a customer proposing that a preferred nonprofit organization be posted onto the GSB website and applying for funding under GSB rules. This application is then forwarded to the local community foundation, which confirms if it qualifies for GSB funding, based on the above criteria. Then, once or sometimes twice a year, customers receive a ballot with a list of all the organizations in their particular geographical area that customers can vote for. Based on the percentage of votes received by each organization, they receive that same percentage of the total funding for that area. Thus, for example, if one organization receives 20 percent of the votes of a particular area, it will get 20 percent of the total funding earmarked for that area.

The overall allocation of funds to different geographic areas is determined by their percentage of GSB sales. For example, if Sacramento, California, accounts for 12 percent of GSB's total sales, then 12 percent of GSB profits are donated to that region. The main idea behind the process was aptly expressed by the one of the owners of the

company, "We want the profits to be democratically distributed according to people who are in the best position to know." The senior manager put the same idea in these words,

> "The theory behind this… is that in the end, it is our stakeholders... in their own communities, who have a better sense of the needs of their community."

In conclusion, the mid-sized firms are all stakeholder firms, but in comparison to J&J, the external stakeholder impact is limited in the decision-making processes. Based on the above, we can also say that two of the firms—KAF and Dansko—are not truly proactive stakeholder firms as far as the external stakeholders are concerned. It is true that these firms reach out to their local communities, do philanthropic works and are considered excellent places to work. They also reach out to their customers and inform them about the company, its products and its value-based philosophy. But these efforts to engage external stakeholders are for two reasons alone: to understand the customers; and to gain community and customer goodwill. But KAF and Dansko do not involve stakeholders in product launch or product development as J&J does.

GSB, on the other hand, is a slightly different case. It is largely like the other two mid-sized firms, but when it comes to the decision of donating money, its customers and employees are involved in the decision-making process. Therefore, it would be fair to say that in this respect GSB is more of a proactive stakeholder firm.

The important question is why are these firms not as externally proactive as J&J? The answer lies in the fact that there is a clear difference of scope and impact of what these firms are doing as compared to J&J: Dansko makes shoes, GSB provides office supplies and KAF makes flour, while J&J makes drugs that affect millions. It would be unfair to relegate these firms to a lower standard of stakeholder management as they are, within their limitations, stakeholder oriented organizations.

Keeping the limitations in mind, we can say that the mid-sized firms are not proactive firms as in case of J&J, but they also do not fall quite into the category of 'accommodative' stakeholder firms either, as these organizations, especially GSB, do go beyond what is required. They are not doing only what is required and no more, that defines an Accommodative stakeholder organization. We have already discussed the reasons for the relatively less proactive stance, but note that while mid-sized organizations do not really survey their environment as J&J, all of them are members of B-Lab. The significance of this membership is that all B-Lab members in order to overcome their small size have gotten together to give voice to their collective concerns about sustainable business practices. In this regard, all of the B-Lab members including the mid-sized firms in this study have reached out and made other like-minded firms as their stakeholders. Furthermore, through this unified forum, they have become stakeholders with local, state and national governments. Keeping these facts in view, it is quite evident that within their limitations they do qualify as more than mere 'accommodative' stakeholder organizations.

Small-Sized Organizations

In small organizations, outside contact and involvement is quite minimal. These are small companies in which decision-making is more of a face-to-face, direct-discussion event. These companies have between 15 and 25 employees, so almost all decisions are taken with mutual consultation. Outside stakeholders are not really involved. Again, this is perhaps due to their small size or to the fact that there is no clear business benefit of doing so, as there is in the case of J&J.

At Green Shirts (GS), the decision-making process is very transparent. As explained by one of the owners, "we use our monthly meetings, we discuss different projects… So we constantly share this information with our employees. But like a lot of organizations, some are a 110 percent on board, some are less on board."

When asked how GS backs the claim that its employees are its most important stakeholders, one of the owners in GS answered,

> "I think sometimes that's difficult to quantify because we're such a small company... We start looking at what a livable wage would be. We look at how [to] interact in the workforce, which is giving them a voice and say… We are owned by two people, so it is not a democracy. It is [the] two owners [who] have final say... But we are looking for [employee] input, and we have training to support that. Now we're doing... lay-manufacturing training, but we've also [done other] training[s] that include all employees….We look at our benefits package. Right now we just pay half of the medical. We'd like to pay more, but right now we are paying half of their major medical…. Now, there are plenty of areas that we need to improve, so we don't have real accurate benchmarking so we can measure where we're trying to go, where we've been—it's more of a general philosophy."

GS has also enacted some layoffs. When asked how GS justifies layoffs if employees are important stakeholders, one of the owners replied,

> "Well, the justification is very painful, because the market is so tight for jobs. But generally, the way we justify that is we delay it as long as we can, you know. And we try to find other alternatives. But generally, the person that is laid off is certainly not the person that feels like they got the better end of the deal. Part of the justification as a business is also protecting the remaining employees. If we are overstaffed, if we are not [the] right size, than we jeopardize all job[s]. So, as painful as it is, we've got to appropriately size our workforce to meet the work that's needed…It's very painful."

The owner explained the whole process that takes place before a layoff is enacted. There are discussions with the managers to find alternatives. Employees are cross-trained so their work and hours can be re-divided and/or reduced. The basic rule is that layoffs are a last resort.

At the community level, these smaller firms do involve themselves in local issues. Green Shirts gets involved in a number of community projects that educate people about the company's green products, about how GS does business and where its cotton comes from. Recently GS hosted an event for the Carolina Farm Stewardship Association, which supports sustainable agriculture in South Carolina. GS is also involved in a number of projects promoting energy conservation, biodiesel fuel, organic food drives and a local sustainable-food movement. Three years ago, GS partnered with Piedmont BioFuels of Pittsfield, North Carolina, to develop a retail biodiesel station, perhaps the only one in the country. It is a green-built structure-i.e., a passive solar building, and it is powered by 100 percent renewable energy. In sum, as one of the owners puts it, "we do a lot of things to connect [with] the community at a lot of different levels."

In conclusion, although GS does not really involve the community or other external stakeholders in its decision-making processes (which is probably not feasible, given its size), it does consider the community to be a stakeholder and in turn involves GS in a number of community causes.

The firm Untours (UT) also displays the same dynamics as GS in both internal and external stakeholder involvement in decision making. External stakeholders are not part of the decision-making process because of the size and exposure of the organization to outside influences. Internal stakeholders, the employees, are involved in decision-making at the company level as well as in their individual assignments.

An important way that employees become part of the decision-making process is through team work, and this structure will be discussed in greater detail in the next chapter. For example, all decisions are based on consultation and discussion within

teams. Teams are the basic units in which the whole organization is divided, and each team with its team leader is responsible for its business decisions.

At the organizational level, there are some decisions in which all employees are involved. In a recent layoff decision, all employees were told what the company's financial situation was and what the potential alternatives to layoffs were. All aspects of the problems and solutions were discussed. In the end, the difficult decision was made, but it was done in a way in which employees felt that they were treated with dignity. As one of the owners recounted,

> "We got through it in a way that I think most people involved, even those laid off, would say yeah, that was in keeping with the core values of the company. Which...felt like a major accomplishment."

After the layoffs the severance package was discussed with the employees. A top manager described the results of this talk,

> "I talked to them about the severance benefits that I had given to those who were laid off and people were very pleased... Obviously they were concerned with their former colleagues and that made it much easier for the folks who stayed to trust that, yeah, we are being treated fairly."

In sum, UT as a small firm does not really engage external stakeholders in decision making, but its employees are involved in decision making at various levels in the organization.

Summary

So what have we established in this section? We discussed what specific features establish the studied firms as proactive stakeholder firms. In the introduction, we discussed the different types of reactions that organizations have vis-à-vis stakeholders. Based on those reactions, we discussed four different categories of stakeholder firms. In our studied firms, one thing has been established: none of them are either reactive or

defensive stakeholder firms. They fall in the category of either accommodative or proactive.

This categorization is also affected by the size, strategy and industry of the organizations. J&J, which is the only large firm in the sample, has been established as an attempting to be proactive stakeholder firm. At the corporate level it not only consistently surveys the environment but also engages stakeholders as partners in decision-making processes.

Internally too, J&J says that it considers its employees as an important resource not just based on their skills but also individuals with worthy opinions and views. To engage the employees J&J has established specialized departments and conducts several surveys. In short, the opinion of the employees is valued and actively sought for further improvement in J&J's policies and strategies.

TT, which gives us unique insights as a case study within a case study, clearly establishes that proactive stakeholder firms go out and seek potential stakeholders and bring them in to the process of decision-making. In this regard we discussed n detail the way TT sought and engaged AIDS activists and make them a part of the process of product development.

The mid-sized firms, as already mentioned, based on their size and their industries do not have the resources or the need to reach out to external stakeholders. They reach out to the community and customers to develop goodwill and understand the market. Furthermore, they do develop close and long-term relations with their more strategic stakeholders like vendors, suppliers, and distributors. So once they have developed these relationships the smaller firms tend to maintain and perpetuate them, and this is a

common feature that they have with a large firm like J&J. The difference, however, lies in the fact that unlike J&J they do not go out and establish relations with new stakeholders. Based on their specific features, these smaller firms perhaps they do not need to have such a strategy. Therefore, Dansko and KAF can be termed accommodative-proactive stakeholder organizations.

GSB in comparison with the other mid-sized firms is a little different. Based on its overall strategy of donations of profits and maintaining a democratic system, it involves its customers in the decision-making process of donations. Due to this unique feature, GSB can be termed a proactive-accommodative stakeholder organization. Other than this feature, GSB exhibits similar dynamics to the other mid-sized firms.

All of the mid-sized firms consider their employees important and have developed different structures and methods to engage them. Employees have autonomy in these firms and are treated with dignity.

Finally, in the small organizations the engagement with external stakeholders is very limited and almost non-existent. But for internal employees, they exhibit the same features as the mid-sized firms and J&J.

So going back to the question: what have we established? In this section, we have established basic features and strategies of stakeholder firms as illustrated below in Table 6.1. We have also established that there is a positive relationship between levels of stakeholder (internal and external) engagement and levels on the RDAP scale. Based on J&J's strategies towards internal and external stakeholders it is at the level of proactive stakeholder orientation in its stakeholder policies. All other organizations that have limited external interactions with stakeholders are 'accommodative-proactive.' With the

exception of GSB, which involves its external stakeholders in specific organizational decisions and that is why it is categorized as 'proactive-accommodative.'

Finally, there is similarity in the way internal stakeholders are treated across all six case studies. As for external stakeholders, there is J&J at the corporate level and TT— a J&J decentralized autonomous profit unit—with a specific proactive stakeholder strategy. In terms of evaluating strategy alone, both J&J and TT show a consistent strategy as proactive stakeholder organizations: they constantly survey their environments, seek out potential stakeholders and engage them in decision-making. On the other hand, there is limited interaction between the middle sized firms in the sample with its external stakeholders. But there are two things that are pertinent to state here. One, as these organizations are growing in size they will in all probability have increased interaction with a larger variety of stakeholders. This is certainly true in GSB's case, where as it grows nationally it gets involved in greater number of communities and stakeholders. Secondly, these organizations do have more business related external stakeholders like vendors, and suppliers, and they do try to develop long-term, mutually beneficial relations with them. There is, however, very little evidence that these organizations proactively involve external stakeholders in organizational decision-making and that is why they are categorized as accommodative rather than proactive stakeholder organizations.

Table 6.1: Proactive Stakeholder Characteristics: The goals of each Firm

	Philosophical Stance	**Internal Stakeholders**	**External Stakeholders**	**Stakeholder Orientation**
Johnson & Johnson	J&J's philosophical stance emerges from its Credo that was created in the early 1940s by its Owner. Over the years the Credo has been updated. The latest version of Credo sets out four main stakeholders in the following order: Customers, employees, Community, and Shareholders. The essential component of J&J philosophy is that J&J can serve shareholders better by serving all other stakeholders	Employees are the internal stakeholders. In J&J employees are considered as valued resources. They have autonomy at work. J&J also has structures and procedures to involve employees in organizational and departmental decision-making. J&J has created a whole department under the HR department to elicit views and opinions of the employees. It also conducts Credo surveys that give employees an opportunity to assess J&J's performance. The Survey and Credo Challenge is also used as a tool to improve management. Because it is a very large organization direct involvement is not possible but at departmental levels employees have autonomy in their spheres	J&J surveys its environment and recognizes and reaches out to potential stakeholders. Once identified J&J makes efforts to involve these stakeholders in its decision-making process. The involvement can be one-on-one basis with groups or it can also be in larger gatherings in which all stakeholders are present J&J not only involves stakeholders in discussion and discourse but also incorporates stakeholder suggestions and tries to maintain transparency in these relationships	**Proactive**
Dansko	There are five components to Dansko's value statement: maintaining the brand; maintain the business; investment in employees; give back to the community; and save the planet	There are structures and policies to involve internal stakeholders in organizational decision-making. The employees are valued and their opinion is valued. Employees have autonomy in their work. Employees are involved in discussion and dialogue with the management	Have methods of eliciting Customer views about its products. But does not survey its environment and look for potential stakeholders or involve them in a dialogue. Is a founding member of B-Lab	**Accommodative-Proactive**
Give Something Back	Created for the purpose to give back to the community. In the last 20 years has donated almost 80% of its profits to NGOs	Employees are valued and their opinion is also sought through different structures like departmental meetings and opinion surveys. There is very inclusive decision-making at GSB	Involves customers in its decisions to donate through ballots. Is a founding member of B-Lab	**Proactive-Accommodative**
King Arthur Flour	Believes in developing long-term partnerships with stakeholders, serving the community and creating a great workplace	KAF is 100% employee owned. The employees are the most important group in the organization. There is complete financial transparency and employees are involved in dialogue and decision-making at different levels with formal and informal structures	Gets involved in social causes like other mid-sized firms. Is a member of B-Lab	**Accommodative-Proactive**
Green Shirts	Based on the principle of Triple Bottom Line stressing on: people, planet, and profit	Employees are valued and their opinion is also valued. There is a lot of collective decision-making and transparency in GS	Involved in local social causes Is a member of B-Lab	**Accommodative-Proactive**
Untours	Created for the purpose to create jobs at the local level and help small businesses with loans. It is also a stakeholder organizations that believes in creating long-term relations with other stakeholders	Employees are valued and their opinion is sought. There is a lot of informal and formal inclusive decision-making	Involved in local causes. Has a foundation that gives loans to small businesses Is a member of B-Lab	**Accommodative-Proactive**

Stakeholder Mechanics

How do managers prioritize their stakeholders? Are their decisions based on intuition or do they act on rationalized precepts? How do managers deal with stakeholders who have conflicting interests? In short, what are the mechanics of managing stakeholder interactions? Management scholars have sought to answer such questions to varying degrees. In this section, we will consider the questions from the perspective of managers and organizations.

We will begin by discussing evidence on which stakeholders are considered vital by most managers in the studied organizations and why. The discussion on the general stakeholder list will clarify some of the dynamics behind recognizing stakeholders. Once a general list of stakeholders is established, it will take us into the discussion on the salient features that make one particular stakeholder appear more important than others. Finally, we will discuss how interest conflicts between different stakeholders are resolved by managers.

A General Priority List of Stakeholders

Johnson & Johnson

Ask managers offhand who they think are their important stakeholders, and they will likely paint an amorphous list. As one J&J manager puts it,

> "We have, I think maybe different groups of stakeholders, so we can start by saying stakeholders are our patients; stakeholders would be physicians, stakeholders can be our internal employees. Other stakeholders that we work with, that we go out to, uh, to the advocacy community; uh, non-governmental organizations, international organizations, so organizations involved in global health. Government civic health authorities would be stakeholders; other

government departments maybe would be stakeholders. If you want stakeholders in some form or other, then everybody that we connect with."

While the last words, "everybody that we connect with" exemplifies the broader definition of stakeholders put forth by scholars such as Freeman (1984), this definition does not suffice in laying the basis for a concrete organizational strategy as outlined in the theoretical section. However, most managers do not conceptualize stakeholders with such a wide stroke of the brush. At J&J, pertinent stakeholders are largely defined and ranked by managers as well as employees (at both organizational and individual levels) in two ways: by how they fit into the scheme of the Credo, and by their particular functions and assignments.

The importance of the mission statement in deciding who is a stakeholder, generally, and particularly in case of J&J, will be discussed later in the section. Briefly, the J&J Credo was created by General Robert Wood Johnson in 1943 and divided into four sections. Each section names one stakeholder and then explains what duties and obligations J&J has towards that particular stakeholder. These sections are arranged in order of priority. The most important J&J stakeholder is the group that actually uses and prescribes their products—the patients, doctors and nurses. The second most important group is J&J employees. The third and fourth groups are the community (local and global) and the shareholders, respectively.

At J&J, the Credo is the foremost guide in determining who comprises the organizational and individual stakeholders. A secondary guide for managers and employees is their particular assignment. Managers and employees tend to identify stakeholders as those for whom they have more responsibility and with whom they have

direct contact. In other words, there is a stakeholder bias depending on the specific roles of managers and employees. For example, a top J&J manager explained that it is unlikely that a finance manager would hold NGOs or activists groups as priority stakeholders to the same extent as a manager in the philanthropic division.

Depending on who is asked, lists of those considered stakeholders will vary. For example, when discussing his department's partnerships and stakeholder involvement in developing healthcare systems in China, the government affairs manager mentioned,

> "We also partner with other people that the government trust and we trust. We have partnered with Harvard University and the Peking University, which is the top university in China."

He further added that in similar work in India their partners and stakeholders are,

> "Patient organizations, physician organizations, and governmental representatives to have and open discussion around either selected or broad topics of healthcare reform."

This list changes when the same question is asked of a manager who works in J&J's philanthropic arm. According to this manager,

> "This office is corporate contributions and community relations, and we represent the philanthropic arm of J&J—and there are two components to that: the primary focus is to make long-term, life-changing differences in human health and we do that at a global level, and we also do it at a community level. My focus or my role in this organization is at the community level."

One frontline manager at TT, a medical officer responsible for direct contact with prescribers (physicians, nurse practitioners and physician's assistants), asserts that they use the term 'stakeholder' and 'customer' interchangeably. He identifies two key groups as his stakeholders: internal and external stakeholders. Commercial colleagues within TT

comprise the internal stakeholders. They generate data for the managers and answer their

questions. The same manager explains,

> "So we work very closely with our internal commercial colleagues. We're also the experts in the field therapeutically, so when they have questions about competitive drugs, or how physicians make their treatment choices, or drug interactions, those sorts of things, they'll come to us."

The external stakeholders are not really the patients but rather,

> "The healthcare practitioner, the healthcare provider….providing the clinical services to them, so that they are as educated as they can be about how to appropriately and safely use our products, in the ultimate, end-consumer customer, which is the consumer of healthcare, the patient."

In the above case, according to the manager, "the patient is indirectly our

customer, but the patient is more the customer of the commercial organization." The

above evidence shows that the stakeholder lists may vary, based not only on particular

jobs, but also on the interviewee's position in the organizational hierarchy. In most cases,

when talking to upper management, the stakeholder list was broader and was more

clearly based on values memorialized in the Credo, while interviewees from lower levels

of management enumerated a more precise and job-related stakeholder list.

A consistent factor in almost all interviews was that no matter where you worked

within J&J's hierarchy, no matter what your job description, or who your immediate

stakeholders, all stakeholders were linked through the J&J Credo. This is supported by

the words of a J&J manager of its philanthropic division, who emphasized that J&J''s

main stakeholders are the communities in which their employees live. He stated,

> "Where they [employees] live because you will hear over and over that people refer back to the credo that we have responsibility to the community where our employees live and work."

Mid-Sized Organizations

Among the three mid-sized organizations, Give Something Back and Dansko do not have substantial employee ownership. King Arthur Flour, in contrast, is 100 percent employee owned. This distinction clearly affects how employees and managers prioritize their stakeholders. Therefore, it makes analytical sense to divide these three into two groups-i.e. employee owned and non-employee owned, when considering the composition of their stakeholders.

Perhaps not surprisingly, Dansko's and GSB's general list of stakeholders are markedly similar. This similarity is also found in how stakeholders are prioritized in Dansko and GSB. In most cases, their employees and managers list the following stakeholders: customers, employees, community (mostly local), vendors, and suppliers. In responding to the question, who are your stakeholders? A Dansko manager responded,

> "Customers actually wear those shoes… there is [are] our employees, there is our community and there is [are] our vendors, people who we buy from."

Another Dansko senior manager commented,

> "So basically that's the customer, our stakeholders are the employees here… our retailers… our own local community."

Replies from GSB employees and managers regarding stakeholders could practically be substituted for Dansko's. One senior GSB manager commented,

> "I think my stakeholders…..are, you know, our employees, our customers and our community."

A GSB employee remarked,

> "In our company, the stakeholders are the employees, and the nonprofits….we have your customers as your stakeholders."

A mid-level GSB manager explained that, in his opinion, stakeholders are the employees first of all, "and then the community that we live in... and our customers." Another manager prioritized stakeholders in the following words,

> "We make it really clear in Give Something Back that our stakeholders are our customers and this is in a particular order. Our customers, our employees, the environment and our community, and then, I would add to that, our vendor and our supply chain."

At Dansko and GSB, the listings of stakeholders follow a similar pattern. Some prioritized customers, while others put employees first. It is not a hard and fast rule, but the spread of opinion seen within Dansko and GSB seems to correlate to the respondent's job description or place within their organization's hierarchy: employees tend to rank themselves higher, upper managers tend to put customers and community ahead.

At KAF, however, employees far more consistently listed themselves as the first and the most important stakeholder. As one KAF employee put it,

> "The employee-owners, first of all. That's who I feel like I'm working for."

After listing KAF employees, one KAF owner-employee listed others she considered to be important stakeholders: "I would say anybody who's invested, anybody participating in the ESOP (employee stock ownership plan)" She further added that the company as one feels that its customers and the community as a whole are also major stakeholders. Interestingly, a senior KAF manager voiced the same opinion as the employee:

> "Well, certainly the employee-owners, our customers, and then… we like to give back to the community, we think we also have stakeholders who may or may not be customers of ours, but, are stakeholders."

What underlies the prevailing high priority given to employees at KAF from the spread of prioritizations at GSB and Dansko is the key detail that KAF is an employee-owned company. The employees naturally feel that, as owners, they are KAF's most important stakeholders. They acknowledge that customers and the community are important, but secondary to themselves.

Alongside such differences between KAF, GSB and Dansko, however, there are also some similarities in the stakeholder lists of these three mid-sized companies. One of the similarities is a persistent difference within these enterprises between the stakeholder priorities of top managers, and those of the lower level managers and employees. The difference, however, is not of the same degree—at GSB, for example, the difference is greatest.

The question is why the difference in stakeholder lists of managers and employees? At GSB, most employees and managers included the community in their stakeholder list, but did not place it at the top. The owner of the company, on the other hand, spoke of,

> "Our community being the principal stakeholder. I mean our goal for establishing the company from the very beginning was to use the company as a vehicle to raise money for the non-profit organizations that are working in the community, so that's the principal stakeholder. But obviously any business, the co-principal stakeholder is the customer."

This greater internal spread of opinion at GSB may stem from its particular model of stakeholder management.

As discussed in Chapter 5, GSB's overall strategy is very competitive and its employees and managers are neither pressured towards, nor assessed on, their internal or

external stakeholder management. The company's commitment to socially responsible behavior towards the community is primarily fulfilled by the owner's relinquishing of their profits to community organizations. The employees play a small role in this process.

As noted above, KAF displayed a relatively closer consensus between employees and top managers on stakeholder ratings. But this is not an absolute. There is also evidence at KAF of differences that stem from the job description and position in the firm of those interviewed. Thus one senior marketing manager in KAF placed the consumer on top,

> "We have a couple of primary audiences, the main one is the home baker, in the U.S., uh, and then there's a secondary audience of the professional baker, in the U.S….from a marketing standpoint, there's also…there's an audience of… trade advertising to retailers and industry leaders."

Another manager in KAF media relations ranked employee-owners no higher than a wide array of other stakeholders,

> "I would say internally my audience is anybody who works here really. Externally, I think of my audience as anybody who's interested in baking or food products…So I really have a broad audience in mind…. [like] trade publications, trade media, people in the baking and food trades, so not just consumers."

Compared to the above views, employees at KAF believe that as employee-owners they are consequently the most important stakeholders. We have discussed that it is possible for other stakeholders to make the list of top stakeholders, but in most cases our interviews indicate that employees rate themselves as the top priority.

Further analysis of the above quotes from managers will clarify that the manager refers to stakeholders at the macro level: professional and home bakers in the US, industry leaders, and trade advertising, etc. This clearly shows that managers see the

With ever fewer non-local customers, GS became increasingly more interested in its

sustainability via service to the local community. He added that,

> "Reconnection to the local community is…where we spend a lot of our time. And that's our, our long-term customers too is more with the local. And I usually define local as about 250 miles."

In the case of Untours, a high-level manager listed UT's stakeholder rating as

follows: "Well, for me stakeholders are the owners, the employees, the customers and the

suppliers and the community." But although the community was posed last, this manager

explained that UT owners address,

> "Poverty… [a] strong interest in doing whatever is possible to alleviate poverty, but not in the traditional handout...so doing it in terms of business and loans is the way that he has decided to do that so it's really governed by the interest of the owner."

The main conclusion to draw about stakeholder prioritization in smaller

organizations is that the views of the owners clearly and personally predominate.

In sum, comparing the dynamics of stakeholder recognition across the six case

studies, we see there are certain similarities and differences. Looking in general at J&J's

view of its stakeholder strategy, in J&J, we see different priority lists based on the Credo,

assignment of the interviewee and position of the interviewee in the J&J hierarchy. Top

management in J&J has a broader Credo-based priority list compared to middle and line

managers. In the mid-sized firms, the difference based on position in the hierarchy is

largely supported. The top management has a more general view of stakeholders, while

the views get more specific as we go down the organizational hierarchy.

There is, however, a difference between the mid-sized firms based on ownership

structures. Priority lists in KAF, an employee-owned company, generally has employees

as the most important stakeholder, which has not been the case in GSB and Dansko. In the smaller firms, the dissimilarity between stakeholder priority lists based on position in the hierarchy is much smaller. The reason, as discussed, is that in smaller firms the communication and inculcation of values is more direct and personal. We can, however, see a similar dynamic in J&J—the CEO obviously cannot reach every employee personally, but J&J attempts to create this personal link that aims at reducing the gap between the values and views of the top management and lower level manager and employees by making the Credo the center of all business practices.

How Stakeholders Are Recognized?

As discussed in this chapter's "Existing Research and Contribution" section, stakeholder recognition needs both fixed and dynamic criteria. The environment in which organizations exist is ever changing, and with it, so does the constantly changing list of current and potential stakeholders. This pace demands that managers have some flexible principles in order to identify new stakeholders. But at the same time, stakeholder recognition would be difficult if there were no core principles laid down at all to recognize stakeholders. Without basic principles, every manager would have a different list of stakeholders.

One of the contributions of this work is that we found evidence of two different categories of variables that guide managers in discerning their stakeholders. One category has salient features that represent the essentially dynamic aspect of stakeholder management, and the other represents the imperative for some core principles.

A second contribution of this work is to add to the specific features within the two broader categories—fixed and dynamic variables (Box 6.3 & 6.4).

Box 6.3

Fixed Stakeholder Recognition Variables

- **Who are important Stakeholders?**

  "we can start by saying stakeholders are our patients, physicians….employees. Other stakeholders that we work with, that we go out to…advocacy community, non-governmental organizations, international organizations, so organizations involved in global health. Government civic health authorities would be stakeholders; other government departments maybe would be stakeholders"   **(Vice President)**

- **How stakeholders are recognized?**
  - **A priori list (Fixed Features)**
    - **Leadership**
    "there's the interest of the owners…which includes a variety of different…..causes if they are very interested in…. it's really a whole bunch of different things, but it really starts from the founders."   **(HR Director)**
    - **Mission statement**
    "I think that the credo….acts as a guiding principle, I think it's, you know, it reminds us…where stakeholders may fall terms of priorities or importance"
    (Finance Manager)

In the case of fixed variables, there are two main interlinked sources of variables for recognizing stakeholders. The first source, and perhaps the more important one, is leadership views. We will discuss in detail in Chapter 7 how leadership views in the studied organizations set the tone of the whole culture. In essence, the leadership worldview is the key aspect of setting fixed stakeholder features. The second source is the mission statement of the organizations. Mission statements are greatly influenced by the owners and top management, but all organizations, depending on their size and the need for sophisticated structures, have ways to incorporate employee views in creating or updating their mission statements.

In case of the dynamic variables, this study finds that 'power' in our sample organizations is not the most important stakeholder variable, differing from previous

studies— Harrison & St. Caron (1996), Greenely and Foxall (1997), Agle, Mitchell &

Sonnenfeld (1999) and Kochan & Rubinstein (2000). Additionally, our study has found

that it is organization on the part of stakeholders, social acceptance and legitimacy of

claim that are vital stakeholder features.

Box 6.4

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<u>Dynamic Stakeholder Recognition Variables</u>

- **Organization**

  "The thing we're trying to avoid was what we call the dog and pony show. I think the next step was how do the activists come together, and try to control the agenda a little bit more, and that's what ATAC's for"   **(AIDS Activist)**

- **Social Acceptance & Legitimacy**
  "they (stakeholders) represent the needs of the community…the community is me, it's you, it's our customers and our employees and we are all part of the community"
                                (Co-Owner)
- **Power & influence**
  "we don't have a leverage in any traditional ways"
                              (**AIDS Activists**)

- **Value adding/shared interest**
  "the community [AIDS activists] wants these drugs to be approved as quickly as possible… so there was a shared interest in getting these drugs into the hands of people with HIV more and more rapidly"   **(Manager Drug Development)**

- **Job description & seniority of the interviewee**

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The section is divided into two sub-sections: fixed stakeholder features and

dynamic stakeholder features.

Fixed Stakeholder Features

In this section, we will discuss the role of leadership and mission statement in

recognizing organizational stakeholders. We will show that leadership and the mission

statement provide the core principles around which stakeholder recognition can be flexibly applied.

<u>Leadership</u>

In the conduct of case studies, the views and preferences of leadership and owners are of paramount importance. In Chapter 7, we will discuss in greater detail how their worldview dominates their practices toward stakeholders and how their efforts create and perpetuate a particular organizational culture. Why these *a priori* standards are so important will be discussed in the next section. For now, we will just touch upon the role of leadership in deciding who is an organizational stakeholder. First we will review how stakeholder recognition involves some consistent practices.

In J&J, a principle was handed down all the way from General Johnson's book and early statements that are incorporated into the J&J mission statement, called its Credo. Johnson prioritized the importance of J&J stakeholders in the following order: customers, employees, communities and shareholders. In the 60 years since then, J&J has been led by perhaps three to four generations of managers. In all cases, top management has done its utmost to uphold the importance of these four stakeholders in the eyes of every new employee. This is a process that will be discussed in further detail in the next chapter.

As for mid-sized firms, the importance of their leadership, and especially of their owners, in defining their hierarchy of stakeholders is even greater than in large companies such as J&J. This is natural since smaller, privately owned organizations more closely reflect the views of their owners. At Dansko, for example, a top-level manager explained how its stakeholders are identified,

> "There's the interest of the owners…which includes a variety of different…different causes if they are very interested in… it's really a whole bunch of different things, but it really starts from the founders."

Active leadership also plays a central role at GSB. One employee reported that the company's more outward looking turn and increased stakeholder orientation of the last year originated with the owners and top management. Obvious stakeholders are easy to enumerate, as most GSB managers and employees would say that customers, employees, and vendors are stakeholders. Although this *a priori* list is greatly influenced by the owners and the top management, the interesting question is that how do GSB and other such firms identify and manage stakeholders from amidst a larger, more amorphous body like the community? When asked, a GSB manager replied,

> "I think there are a couple of mechanisms that work….we rely on the community to decide what its needs are and where it would like to see our money profits going. And the second deciding factor is our founders."

We can see the interaction of the two mechanisms. In GSB, the divergence of owners and employees over the relative importance of different stakeholders has already been discussed. Since the owner created the organization to serve the community, it is officially the most important stakeholder. Employees, on the other hand, do not see community as the main stakeholder. They are required to operate in a competitive and businesslike fashion. Since the profits that the employees work for are in the end donated to the community, the owner's views ultimately prevail.

If the role of the owners and top leadership in recognizing stakeholders is more important for mid-sized corporations than for larger ones, it is even more so among smaller organizations. The latter typically have employees who are personally more aware of the purpose of the organization.

Since NAFTA was enacted in 1994, the owners of Green Shirts revamped their organization on the principle of meeting the "triple bottom line"—"It's our community, it's our customers, it's our suppliers." While adhering to their vision of sustainable business practices, stakeholder considerations within the community are made by the owners. One Green Shirt owner mentioned,

> "You know, it depends on what we're considering. When we're talking about sourcing products, we consider our community, basically, you know North Carolina, sometimes even the Southeast."

Within Untours, the owners also define goals and decide on stakeholders. These actions do not imply a conflict between owners and employees, but only point to the fact that such stakeholder features originated at the top.

Role of the Mission Statement

Mission statements play a central role in giving firms a priority list of stakeholders, which is to be consulted when stakeholder interests collide. The importance of mission statements will be discussed in a later section on conflict resolution. It will also be addressed in greater detail in the next chapter's discussion on how mission statements are instrumental in creating a stakeholder culture within companies.

In visiting J&J and TT for field observations, we soon discovered that the Credo is displayed in every office and corridor. Every employee knows it fairly well by heart. And when asked about stakeholders or the J&J view on this subject, all interviewees immediately refer to the Credo. They speak of stakeholders in the same terms as the Credo. This document is seen as a constitution that defines the way J&J does business. One manager puts it like this:

> "I think that the Credo is…an important document, in itself, it acts as a guiding principle….I think it's, you know, it reminds us…where stakeholders may fall [in] terms of priorities or importance."

Like most J&J/TT employees, when this manager was asked about identifying and managing stakeholders, he referred to the credo,

> "Some days it [Credo] is a conscious guide and probably other days it's an unconscious…….So it [Credo] is always present in our thinking conscious or unconscious."

It is only natural that in smaller organizations, the mission statement, as a key leadership tool, looms just as large as the view of the owners. This speaks first of all to who are listed as key stakeholders. For GSB, it starts with the community, followed by employees, customers and vendors. For KAF, employees top the list. For GS, it is the principle of "triple bottom line." For Untours, it is employees and the community.

Dynamic Stakeholder Features

<u>Organization</u>

It would seem evident that in order to be heard, any group of people need to be organized. It takes a sustained, collective effort to be heard in important forums, to gather momentum, and to concentrate sufficient influence so as to have a lasting effect for one's cause. But surprisingly, the question of organization as such has not been really addressed in the stakeholder management literature.

In this section, we shall therefore demonstrate that organization is a vital step for stakeholders in becoming recognized and—eventually—included at the negotiation table.

The conclusions drawn from evidence again vary according to the size of the organizations studied. J&J is a large multinational corporation. It also operates in an

industry that affects a vital aspect of the lives of millions of its customers-i.e., healthcare. Therefore there are organizations, groups of people, NGOs and other stakeholders, who want to be heard in the course of J&J's decision-making process.

For the purpose of this work, we will discuss the organization, emergence and involvement of AIDS activists in J&J's decision-making process. We will discuss evidence from the perspectives of both individual activists and from that of their associations on the importance of organization in becoming effective stakeholders. Specifically, we will discuss the interaction of ATAC and other AIDS activists with TT.

As concerns the other companies in this study, they are much smaller and operate in industries that affect the lives of their customers and their communities much less drastically. There is no evidence of any group of individuals organizing to become active participants in the decision-making processes of the smaller firms. Perhaps this is because there is in fact little practical need for such structure. However, within these limitations, we will discuss indirect evidence of how getting organized is important in getting heard. The indirect evidence is based on how and why the smaller organizations decide to champion certain social causes and support certain NGOs. As we will see in all cases, they support established, well organized and well articulated causes.

Before examining how TT and AIDS activists interact, let us now review some of the history of AIDS activism. The roots of AIDS activism lie in the passage of the Ryan White Care Act of 1990. In the words of one AIDS activist with almost twenty years of experience, this Act,

"Has itself created various community and national groups, and local groups…And it also enabled the building of these local community organizations who provide social services."

The Act consists of five parts, three of which are important for our discussion in so far as they led to the creation of a number of community organizations at various levels. Part A of the Act concerns direct government funding to city entities called Eligible Metropolitan Areas (EMAs). As explained by one senior TT manager,

"The Fed [Federal Government] writes a check, if you will, to the city of Tampa…. Tampa in turn has various community-based agencies that apply for funding from that pot of money, and one agency may apply for case management, another may apply for food services and transportation, another may apply for prison linkage, you know, when people are discharged from being incarcerated, where do they go? How do they get services? So that happens all over the country."

Part B concerns federal funding to the state level. This funding subsidizes organizations that mostly operate above the city level. Part C details the funding of community health centers.

A key point to grasp from the Acts' many details is that AIDS activist groups that seek funding need to organize themselves to approach already operating organizations such as the Care Coalition. As one TT senior manager explained,

"If you had a new organization that wanted to be part of the conversation, they would…approach…the Care Coalition, and say, we'd like to be...we'd like to have a seat at the table. And historically…that has not been problematic."

With this understanding of how the Ryan Care Act regulates federal funding for AIDS activists, we can turn to how and why ATAC was organized, and how its relationship with TT developed.

The following discussion is based on interviews with two AIDS activists who have extensive experience with the issue of AIDS and with education about it. They have been with ATAC virtually from its inception.

In the late 1980s to early 1990s, two relatively prominent HIV treatment advocacy groups worked on getting drugs to treat HIV and the opportunistic infections that came with it: Project Reform San Francisco and the AIDS Treatment Action Group in New York City. There were also a number of other groups and individuals who sought to have an impact on the process of AIDS research. The very multiplicity of these groups brought with it their divergences of interests. For example, some wanted quick results and faster drug approval. Others were more concerned about women and racial groups receiving properly targeted medication samples. Such discord among activists made it possible for pharmaceutical firms to choose which groups to engage in drug-testing protocol and which to ignore, all the while claiming that, "we talked to the community, the community supports our efforts."

These divisions also allowed pharmaceutical companies to hand pick who was to be included in their discussions. In their meetings, the pharmaceutical companies set the agenda, selected the participants and decided what information was to be shared with the activists. In that setting, the pharmaceutical companies divided activists by "pinning activists one against the other," as commented by an AIDS activist with 20 years of experience.

It was in response to these circumstances that ATAC was formed to give activists the means to put forward a collective, organized voice. In the words of one of the activists, "The thing we're trying to avoid is what we call the dog and pony show."

The AIDS activists working through ATAC were determined to be taken seriously, although ATAC is not a coalition of constituent organizations. Rather, it is a center that coordinates the varying efforts of major activist groups. It therefore has only a core membership of twelve to fifteen individual activists and another twenty educators. The founding of ATAC has not completely eradicated differences of opinion and approach between AIDS activists but, according to one of its members, "ATAC does try to understand varying viewpoints, and try to bring them together, and find some sort of consensus."

This consensus of AIDS activists allowed them to be heard and to become powerful stakeholders in pharmaceutical companies such as TT and, thereby, J&J. But this level of organized consensus emerged from turbulent beginnings.

In the early days of AIDS activism, companies and scientists were reluctant to engage in dialogues with lay people whom they doubted could add value to their enterprises. This attitude changed when two things occurred. The first was the rise of very dramatic public demonstrations by groups like Act Up. The second was the appearance of other activist groups who were more interested in pursuing AIDS science. As one of the activists interviewed aptly put it,

> "[I] think it's partly as a result of the demonstrations, these other activists were invited to be at the table, to just start dealing with the pharmaceutical companies."

As a result, industry leaders eventually came to understand that,

> "There was certainly some value at least in talking to communities. So I think once that precedent was set…I think the next step was how do the activists to come together, and try to control the agenda a little bit more, and that's what ATAC's for."

Such is the viewpoint of the activists, that is, of those intent on becoming stakeholders. Let us now turn to managers' thoughts on how activist groups, individuals and companies like TT can become effective stakeholders in the AIDS/HIV/Hepatitis C arena. As one senior TT manager explained,

> "I'll give you a straightforward example. Let's say you're a physician, you're not on our radar screen, things like that, and you want to get into clinical trials….You can send an e-mail in, contact info is on the website…Alternatively, you may be a stakeholder that we're not in touch with but you may know a stakeholder who we're already in touch with, and so we'll say, okay….can you write the introduction. For example when we got into the area of Hepatitis C—completely new to us—we didn't know any of the stakeholders, so we would start by, you know, asking, who do you know? And then, who does the next person know? And over time you build a network."

Another senior TT manager added,

> "The community meetings [that TT conducts] are the scariest meetings that we hold all year….and this happens within the HIV therapeutic field, it does not happen within most therapeutic areas, because you don't have an organized, very focused base of activists…The activists that we meet with now call themselves 'advocates' but these were the 'Act Up!' people back in '80s and '90s… They've been very effective for changing policy. And they feel entitled and empowered to really try and assert in direct[ing] the pharmaceutical companies."

The above two quotes clearly signify that getting organized and networking with key participants is important in becoming a stakeholder and getting your voice heard. TT, when entering a field of AIDS/Hepatitis C medication, networked with organizations and groups that were already active in the field and had good reputations. On the other hand, as commented above, TT

finds community meetings "scariest" as the activists in the HIV field are organized. Thus as stakeholders, they have more importance compared to other "therapeutic areas."

Beyond of the AIDS/Hepatitis field, we also find evidence that J&J at the corporate level has grasped the concept of becoming a stakeholder itself on a governmental level through the organizations and companies it partners with.

It was for this purpose that J&J created its Government Affairs Department, which deals with J&J's advocacy and political influence side. This department represents all J&J subsidiaries at state and federal levels. As explained by one TT official, J&J, prior to its acquisition of TT,

> "Was silent on AIDS funding; now we spend a substantial amount of time trying to work with community and national organizations to make the case that there is inadequate AIDS funding."

This kind of effort is also evidenced in J&J's overseas offices. We have already discussed J&J's presence and engagement with stakeholders in China and India, as discussed in the first section of this chapter. One senior J&J executive explained that J&J got well organized in India and lobbied to bring all interested parties and industry stakeholders together to draw the New Delhi government into a dialogue over J&J's and others' concerns.

As illustrated in the case of J&J's and TT's relationship with the AIDS advocacy groups, we see how important organization of coordinated efforts is to getting a seat at the table. This same lesson applies when pharmaceutical companies want to expand into

new areas of their industry and strive to be heard at the highest levels of the US and other governments.

For smaller firms, the opportunities for business growth that are opened up by effective organizing are not so broad. But we can still see the importance of organizing through the example of GSB's consumer voting system for the dispersal of its charity funds. The NGOs that GSB funds need to be registered as such, and apply with GSB. These NGOs must likewise organize their outreach to local GSB customers so GSB becomes motivated to recommend the NGOs to GSB. So despite differences of scale, effective organization remains a universal need for stakeholder relations.

The other mid-sized and small companies discussed in this work, Dansko, KAF, GS and Untours have also organized their own stakeholder connections with their communities. Dansko has its own charitable foundation and KAF also engages the community though its unique combination of teaching and food distribution programs. Untours also has a foundation that donates monies within the community to eliminate poverty and increase employment. GS also champions many social causes like environmental protection and social justice.

All of these organizations engage with the community in different ways, but one thing is common—they donate monies and support social causes that have been organized by their particular set of activists.

Though B-Lab is not one of the case studies, looking at it from a different angle, B-Lab also supports our conclusion on the importance of organization for potential stakeholders. The main purpose of B-Lab is to certify B-Corporations and bring together

such likeminded businesses so as to create momentum for concessions to B-Corporations in pertinent tax laws and state regulations. In this fashion, B-Corporations are organizing a forum of socially responsible businesses, thereby creating a stakeholder chair at the table with policymakers. On this smaller scale, we can also draw a parallel between B-Lab and the work of ATAC.

In sum, we get evidence on the importance of organization as an important stakeholder feature at different levels. At the corporate level, J&J organizes the voices of other pharmaceutical companies and likeminded stakeholders, and lobbies with the US government or foreign governments. The purpose of this organization is to affect policy within the US that relates to the pharmaceutical industry. In the case of foreign governments, this organization leads to access into the development process of healthcare systems in certain countries, recent examples being China and India. This access not only helps the foreign country as J&J adds value to it, but it also creates goodwill and establishes J&J in an advantageous position vis-à-vis its competitors in that country.

At TT's level, we discussed the example of ATAC, which got organized to create a collective front facing the pharmaceutical industry. We saw evidence from both sides—TT and ATAC—attesting to the fact that this collective voice gave ATAC importance and participation at the negotiating table.

In the case of the smaller firms, there is almost no evidence pertaining to external stakeholders getting organized to affect decision-making processes in these organizations. But we do get indirect evidence. First, at GSB, if we look at the overall process of donating money, we see that any NGO that is not well organized will not be noticed by

the local businesses and thus will also be neglected by the GSB donation process. The general trend of supporting well established, well organized social causes by all the other smaller organizations also attests to the fact that organizing is important for stakeholders to be noticed and then heard.

The above being said, we can also notice a discrepancy: external stakeholders in smaller firms do get noticed by the firms to warrant donations, but they do not play any part in the decision-making processes as they do in TT's case. The reason could again be attributed to the fact that the smaller firms have limited impact. Additionally, engaging stakeholders in decision making might not be a desirable business strategy to those firms.

Social Acceptance

Social acceptance signifies that only those stakeholders that represent socially acceptable interests, demands and concerns are engaged. In all case studies in this work, the firms reviewed have neither supported nor engaged stakeholders with illegitimate or socially harmful interests. And immediately the question arises, who sets the social acceptance standards? The first criterion is the normative values of the society. A society supports or gives acceptance to only those stakeholders that champion causes close to its own normative standards. Based on this standard, a society can have a number of normative values represented by several social entities. In our discussion on CSR 1 & 2 and CSP, in Chapter 1, we discussed scholarly works that suggest that business organizations should not have to carry all the burdens of a society. Therefore, in choosing stakeholders, top leadership does take into account the factor that whoever it chooses as stakeholders should represent interests that mesh well with societal standards. But at the same time, leaders will choose what is close to their own heart. This aspect means that

responsible stakeholder management can support the interest of certain groups of people, but not at the expense of society as a whole. Additionally, the society cannot expect that business organizations will espouse all societal concerns.

GSB's whole process of donation to NGOs is based on GSB recognizing what each NGO does in its communities as socially acceptable. As one GSB employee described the NGOs that receive support,

> "They represent the needs of the community.... I think and we try to narrow it down by thinking about the organizations that are doing the work."

KAF also works at the Vermont state level on the same principles.

Untours, as discussed, works to reduce poverty and increase employment within its community. UT has also taken up the cause of the Fair Trade pledge within its hometown of Media. This is again a socially acceptable and established movement.

Perhaps the strongest example of social acceptance enhancing a stakeholder role is that of how TT and ATAC came to partner over AIDS—a major social issue.

Another common aspect of social acceptance is the importance given to the employees within the studied companies. In all case studies, employees are important stakeholders engaged in decision making. This will be further discussed in the next chapter on the culture of the organizations under review. But note that all of these firms view their employees as important and trusted contributors to the value of these companies' products, services and internal organization. Across corporate America, it is increasingly understood that treating employees with dignity, giving them voice and autonomy, is simply the socially acceptable thing to do.

In sum, in this study, all stakeholders, internal or external, welcomed and engaged by all of the organizations represent socially acceptable claims.

Power and Influence

Stakeholder power and influence as an important stakeholder feature has been extensively discussed in both theoretical and analytical literature. But in the present case studies, power and influence has not surfaced as the most salient feature of stakeholders. The firms reviewed here engaged and included employees as internal stakeholders into their decision making processes, and in general treated them well, did not do so in response to discord over power or influence. Rather, as discussed in the previous section, inclusion came about as a result of employers viewing their staff as important assets whose value to the firms could be enhanced. Notably, there were no employees who stated that they did not like to work in their respective organization. Thus on the internal front, management strategies were proactive rather than reactive or defensive.

In the case of the external stakeholders, managers also display a proactive strategy towards issues of power and influence. But this takes shape differently for different organizations in this study.

Smaller and mid-sized firms, as noted earlier, do not require outside stakeholder to organize into powerful movements, nor would it make sense for such movements to invest efforts towards influencing relatively small firms. Thus while smaller companies approach external stakeholders proactively, they do so based on their own views or discretion.

In the case of J&J, and especially in that of TT, we see the opposite. These firms accord power and influence to well-organized groups of activists that have been active in AIDS advocacy for over twenty years. It is only natural that such social movements seek to engage J&J and TT, as their products are vital to the very lives of millions. Thus our main study of power and influence as a stakeholder attribute will draw on the experience of TT's relationship with its external stakeholders.

An important tool by which ATAC can exert power and influence over TT is its Report Card, which grades all pharmaceutical companies working in the field of AIDS/HIV. From its inception, ATAC had sought to issue such reviews, but the labor-intensive process of producing it delayed its first Report Card to 2009. The main intent of the report card, as explained by one ATAC official, is,

> "To make very public the fact that some companies were operating in a manner that the community, that the members of ATAC felt was good, for people with HIV,"

with the hope that,

> "These other companies, who we were less pleased with, would start to adjust the behaviors that we felt were desirable."

The companies graded are assessed on various criteria such as: community involvement and relations; fair and ethical marketing practices; access to their products; their drug development portfolio; and pricing. These parameters are not all materially measurable and include both qualitative and quantitative data; therefore, the report includes a large subjective component. Even so, it is very useful to have the first such report. As an ATAC official put it,

"There are some companies that have really said very explicitly, they may not agree with the grade that they got, but they said explicitly that they want to do better, they want to get a better grade next time."

An important question here is what happens when a pharmaceutical company gets consistently poor grades? Can ATAC influence such a firm by impacting its bottom line or otherwise compelling it to improve? The answer is a qualified "yes."

TT received a 'B' in ATAC's Report Card—the highest grade. But other companies did not get a good grade. These companies did not agree with the grades they received and did not indicate that they would improve their score. How can ATAC respond in such instances? According to ATAC officials,

> "We don't have a leverage in any traditional ways, I think the biggest lever is…the notion that people do pay attention, we get the *New York Times* to publish our report card, which is big….that's probably the biggest leverage, is our ability to speak publicly."

In addition to its Report Cards, another means by which ATAC can bring public interest to bear on a pharmaceutical firm in the AIDS field is by monitoring its product development and clinical trials. Such data cannot be kept secret forever. When it does come out and advocacy groups react for or against it, as one activist aptly put it, it then becomes obvious that the pharmaceutical firms,

> "Might as well meet with us early to talk about designing a trial that represents the community that's gonna be using the drug, which ultimately serves the product."

This same view was expressed by another ATAC member,

> "I think that the reason that the companies…deal with ATAC is because the majority of the activists involved in HIV advocacy joined ATAC….So I think there was a realization that they needed to play ball with this group of people. I think another reason that companies meet with ATAC and with other activists is that the education of people with HIV, [which is] for a very, very long time, and

this continues to be the case, is conducted by these activists. So the companies realized you know from another perspective that if they wanted to have a fair and balanced hearing for the[ir] work and their drugs, they also needed to work closely with the community."

This testimony is supported by TT managers. As one manager with experience in other pharmaceutical companies cautioned, not all companies welcome the organized efforts of AIDS activists to influencing them and play a role in decision-making:

> "And there are pharmaceutical companies whom I've worked with in the past that had terrible relationships with the activist community, and I'll tell you they [AIDS Activists] can really make you look terrible, because they'll protest, they'll write to their peer journals about how terrible you are, and you know, you're not in it for the patient…. which does have an impact, because that colors the perception of the prescriber."

One the one hand, even negative reactions from a pharmaceutical company are signs that the firm has been compelled to open up to the court of public opinion. The power and influence of an external stakeholder may at first not be welcomed, but even a negative public reaction signals that the door has been opened. But on the other hand, power and influence is not so obviously compelling for all pharmaceutical companies to be proactively stakeholder oriented.

Value Adding

Value adding has also been established as an important stakeholder characteristic. Most of the case studies for this work indicate that internal stakeholders-i.e., employees, were included in various levels of their firm's decision-making processes. In some cases, employees work in teams and have autonomy in performance of their duties. In many other cases, they contribute to their firms' overall decision-making. KAF, for example, involves employees directly in decision-making through regular meetings. We have also discussed how Dansko and KAF employees participated in defining the mission

statements of their firms. In GSB, employees along with customers are a part of the decision-making process that directs the donation of funds to various NGOs.

However, in these cases, based on the size and impact of these organizations, there is little need for the involvement of external stakeholders in the decision-making process. Though it would seem that employees in these firms are engaged to get a buy in, and the management must think there is some value in getting these different opinions, there is no clear evidence that shows that employee engagement actually added value to what the firm is doing.

Where we do find clear evidence of adding value is in the case of J&J/TT. This change began when TT took the initiative to engage AIDS activists, as they themselves attest. There was of course a normative quality to this action. TT management and employees in general proceed from their Credo, which states that their customers are the most important stakeholders. But in this case, engaging ATAC activists also had a specific utility: engaging these activists and others in discussions before the products were launched added value to the product by accelerating the process by which the product was developed.

As one TT manager explained, drugs are registered and approved by the FDA based on the robustness of clinical trials carried out before the drug is put on the market. It is in the interest of the company to complete this procedure as quickly as possible. Like any research, the robustness of these trials is based on the quality of the sample group on which the drug was tested, and on the conditions under which the tests were conducted. Thus, for example, in the first trial of a drug developed by TT,

"There weren't a whole lot of women, and there weren't a whole lot of people of color….so we [TT] went to the community and said, this is important…we need your help, because no other organization has been able to do this kind of a trial, because when they start off, they're not able to complete it, because women and people of color have so many other issues, other than just their disease of HIV, it's housing issues, you know, incarceration, all of these other things that affect them in being able to stay in clinical trials. So we went to the community [AIDS Advocacy] and said, help us to design this trial, and they did."

So the advocacy groups helped develop trials that were more representative of the intended end users of the drug, and thus added great value to TT's work.

In order to establish such collaboration, TT had to overcome some deep-seated reservations. A senior TT manager explained that meetings with the advocacy groups could end in making the company look bad. Activists had access to media and could complain that the company was not creating the right type of drug or otherwise ignoring the concerns of patients. So it was seen as hazardous to enter into any dialogue that could turn out negatively.

In addition, TT scientists knew that, irrespective of good or bad will on the part of activists, the latter would necessarily be looking at the issues from a very different angle:

"Most of them [the activists] are not clinicians, they don't understand data the same way an educated physician prescriber, who's been trained for years to look at things, and understand it. And they are driven almost exclusively by emotional reasons."

But this same manager added that,

"The meetings with them are among the most productive meetings because they help us clinicians, who are by and large not treating patients any more. I don't treat patients, I haven't treated patients in ten years, but it brings back that emotion."

What the manager essentially meant was that advocates bring them back into contact with

customer needs. This same sentiment was expressed by an ATAC activist,

> "[The scientists were] getting this very fresh perspective by people who are very invested in it, who are coming at it from a totally different way, honestly it's not uncommon for a pharmaceutical researcher to say, you know, in response to a question, we never thought about it like that."

One ATAC member described how the initial reluctance of pharmaceutical

companies to involve the activists in very research-oriented scientific endeavors finally

turned a corner. It was recognition of common interests that underlay the differences of

both sides. The companies came to realize that,

> "The community [AIDS activists] wants these drugs to be approved as quickly as possible, and the community in fact is arguing for the FDA and for the National Institutes of Health to create a policy so that Congress can let them [t]ake it [the drug] to market more quickly. And so there was a shared interest in getting these drugs into the hands of people with HIV more and more rapidly…companies began to see that they [activists] did bring certain value to the table, in terms of their input, in terms of how people with HIV were likely to be open to new products, to what kinds of side effects would be seen as—not as good, but certain side effects that people with HIV would be more likely to tolerate than others…there was a certain kind of information that the community could give to the industry."

Furthermore, ATAC and similar organizations are also involved in HIV/AIDS education,

> "So the companies realized you know from another perspective that if they wanted to have a fair and balanced hearing for the work and their drugs, they also needed to work closely with the community."

This similarity of interest was further explained by an ATAC official,

> "For pharma, the cost of researching increases…the longer it takes to bring a drugs from the chemist people to FDA approval…and here's why I think the companies in one sense have valued activist participation…they [the company] want as many of their doctors knowing about their drugs as they possibly can, before the drug reaches the market, because that's free advertising."

This ATAC official further explained that

"Activists pushed through something called early access programs, so that once a drug comes into Phase Three Studies[. T]he activist community asks the companies to open up expanded access to people who really need the drugs who are not in a clinical trial… For a company, that's insane. If you're getting a lot of people on your drug before the FDA has ever approved it….what more could you want than to have a lot of people on your drug, before it even reaches FDA approval, because once it's approved, you've already got a market for your drug. You don't have to start from zero."

In short, in TT's case involving the activists added value in more than one way. This activity: improved the trial procedures; reduced the time of its approval from the FDA; put the researchers back in contact with the patients' point of view; and finally, improved the overall quality of the product.

Summary

We can say that unlike most empirical and theoretical literature on stakeholder recognition, this work differentiates between two categories of salient features for stakeholder recognition: dynamic and fixed. The fixe features give a stable core around which the dynamic features exist and provide the concept of stakeholder management its much needed flexibility.

Conflict Resolution

Having identified the key features of stakeholders, the question that follows is how do managers recognize and resolve conflicts between the interests of stakeholders in a timely manner? We have seen that there are two categories of stakeholder features: first, is a fixed prioritized list of stakeholders based on either the mission statement or the views of the leadership; second, is a category based on the flexible features of organization, social acceptance, power and influence, and value adding. Flexibility allows for stakeholders to be varyingly ranked for the sake of conflict resolution—a generally

important stakeholder may rate as less so in an exceptional context. Core values can only survive if they are properly applied and adapted to the specific needs of each challenge.

There are a number of commonalities that reappear in all of the case studies when it comes to conflict resolution between stakeholders. As a part of their proactive stakeholder strategy, the studied organizations resolve conflicts by several elements: the company's mission statement, leadership displayed by top management, a development of consensus through dialogue leading to alignment of interests, transparency, and the cultivation of a desire to find a win-win solution (Box 6.5).

Box 6.5

Conflict Resolution

- **Role of Leadership**

- **The mission statement**
  "I think we're always keeping in mind our values…we may be presented with business opportunities that would make sense from financially, but maybe they don't make sense because of our values"
  (Senior Finance Manager)

- **Consensus**
  "I think it is very possible to look at every scenario and find the common ground….And I think one can truly say favor one person versus the other without endangering the whole"
  (HR Manager)

- **Dialogue & discussion**

  "We try to confront, have the dialogue, have the conversation in a meaningful way..and continue through it"
  (Manager Community Relations)

- **Need to develop long-term relations**

J&J managers and employees are, from its point of view, taught two things: to use the Credo as the guiding principle for all actions and to develop long-term relations. Both

these features are seen as important to resolving conflicts of interest, to develop an

atmosphere of give and take. A Government Affairs Department high-ranking manager

explained his approach to crises that pose a clash of interests:

> "I think the big decisions all talk about the Credo…the Credo is what everybody talks about I have been in some business decisions…not too many but I know that is often the first question….particularly there is crisis management. The first question is not how do we keep the inventory on the shelf, but the first question is that let us just forget all about that and what is the right thing to do for the patient. We do not always get the right answer, we have proven ourselves to be fallible, but that's often the first question that is asked."

This manager described a crisis in the early '90s Tylenol case and reiterated that,

as per the Credo, it was the patient who most the important stakeholder, and therefore

placed above any financial loss for the organization.

He further explained the importance of the customers/patients in his works with

national and international governmental agencies to develop healthcare systems. J&J can,

he said,

> "Influence the government to pass rules that make us the maximum amount of money. But that is not where we start from, and we start out from OK, what is the healthcare system look like that is best for the patient, and that often makes us uncomfortable as we may have to change the way we do business. For example it's a lot easier for companies to do research of drugs and just throw them out into the market and it might make a dollar and might work. But we have actually been in favor of government regulation that would force companies like ours to only put out those products in the market that are actually better than the existing products in the market. Lot of companies are not in favor of that because it raises the cost of your R&D and lowers your productivity."

Another senior manager pointed towards developing long-term relations by

developing understanding through discussion. But her statement also gave top priority to

patients who are the most important stakeholders for J&J, explaining,

"I think when there is a situation and the interests…don't appear to match, then the way, one of the ways that we look to find a path forward is to say, what, what really is at the root of the problem?...For example, patients are the people that we're there to serve. We want to provide them with drugs to improve their health. And yet at times….where we have had a different position from, the patient community…[if] there is a potential difference of opinion on something either financial or business-wise, then again we would look to try and have some sort of dialogue or interaction—explain maybe our position? And also take time to understand what the impact is going to be on the stakeholders."

The nature of the dialogue could be anything from an informal meeting with a specific stakeholder or a formal group meeting that includes major stakeholders and partners to discuss matters of common interests. The approach is evident from the TT example in which AIDS/HIV advocates were engaged separately and in larger group meetings. The senior manager further added that, "it's a strategy that is based on long-term relationships and experience."

Another manager related a Credo challenge,

"Typically it's when you may have a conflict between your four primary stakeholders, and then how do you address that conflict appropriately, and it [the credo] provides you with just some thoughts of understanding the dilemma, understanding the stakeholders that are impacted. And if you're looking at a decision that's short-term versus long-term, making sure you're making decisions that have a longer, much more long-term impact in mind."

One TT manager differentiated between internal and external conflicts, commenting that,

"I'll just say that we're about 95 percent aligned on the issues, but externally, our fundamental philosophy...[is that] you are an active participant, as in where you need to be, and any dialogue discussion or action plan…Part of being a partner is finding that place where you might disagree, and if you can't find consensus, at least you agree to disagree, and you do it in a respectful way."

Another manager from TT explained the process decision-making in J&J,

"Internally, J&J is a consensus-driven organization, so rarely is there an edict, or a leader who just is the final decision-maker, and you know sometimes you have to be that, but generally it's much more, you know, consensus-building,

getting people on board, listening to their opinions, and you know having the group as a team come to the final conclusion. In a consensus organization, though, it's really critical that everybody has a voice."

He further explained that in his field as a clinician, he has to work in a multidisciplinary way. In order to formulate a long-term strategy for his department, he has to bring people from the commercial and sales side on board. A better strategy results from a consensus by all concerned.

Externally, he stressed that consensus is developed through an,

> "Advisory board, with our key customers, and it's a representative sample of the key customers …key opinion-leaders…community physicians…patients. So we meet with them in various settings and then, sort of in the middle part of the year, we then meet with the community advocate groups, and say, this is what we heard from the physicians, here's how we interpret that, does that meet with your thoughts on it, because again, our plans are developed ultimately to benefit the patient, but in the intermediary, to ensure that the physicians understand, so you have to get both perspectives on that."

But if there is still a conflict he refers back to the Credo,

> "I'll tell you personally how I do things…the J&J way…..So I always filter through my mind in an efficient process of, will this harm the patient? Will this help a patient? Will this help a physician understand better how to treat their patient? And as long as you're answering in the favorable, then I'm less concerned about what an individual stakeholder internally agrees with or doesn't agree with because at the end of the day, the net consumer is benefited."

In the smaller organizations we find similar themes. The difference is that in smaller organizations the external stakeholder conflict does not occur as frequently, because their relations with stakeholders differ from those with J&J/TT.

We will find however, that the business interest of the smaller firms does at times conflict with their efforts to serve their community as a stakeholder. And sometimes it is

precisely the exceptional, problematic instances that best illuminate how these firms

manage their external ties.

One KAF senior manager explained how business and other interests are

reconciled on the basis of the firm's essential values and mission statement:

> "I think we're always keeping in mind our values…we may be presented with business opportunities that would make sense from financially, but maybe they don't make sense because of our values. For instance, we've got pretty strict criteria as to the kinds of ingredients we'll put in our products….we like to be as 'all-natural' as possible. Recognizing there's no definition of what that means, we want to be very clear with our customers that when we label a product 'all natural,' we mean 100 percent natural. Uhm, and if there's any, ever a case where we don't feel that that would be an appropriate label, say there's some ingredient that has been synthesized, we won't label that product all natural."

What she affirmed is that KAF's commitment to customers is more important

than putting cheaper material into their flour. One employee talked about conflict

resolution within the firm, "we try to confront, have the dialogue, have the conversation

in a meaningful way, and not allow it to sideline us, and continue through it." The field

observations conducted at KAF confirmed that an internal conflict resolution policy,

which asserts dialogue and discussion, is in place and applied vigorously.

At GSB, a manager who was dealing with organizational decision-making

regarding sustainability and marketing did not see these two areas as conflicting with

each other. She remarked that,

> "I have never had a conflict…..For some reason I don't know if I can describe it but….we strive to creates kind of you know beneficial win-win sort of initiatives"

In the same vein, one of the owners of GSB remarked,

"You have to make those decisions [that] are a reconciliation of conflicting interests, which have to be….reconciled based on compromise….now that doesn't mean that they are always correct decisions but they are made with the attempt to reconcile the board interests of the stakeholders"

Another senior HR manager remarked that,

"I think it's possible to look at every scenario and find the common ground."

In the smaller organizations, in Untours for example, most decisions are taken with the consultation of all employees. For instance, the general manager of the company undertook the decision to lay off employees. He said that the decision was taken by consulting employees that were laid off as well as those who were not. Because layoffs are a major decision and represent a major conflict of interests between employees and employers, the whole process, as explained by the general manager, was based on treating everybody fairly and in a way that allowed employees to understand the need. In this way, the employees who remained were very regretful about the layoffs, but agreed with management on their necessity. The issue of layoffs will be discussed in greater detail in Chapter 8.

One GS owner explained its process of internal decision making and consensus building:

"Generally we…guide our business by committee. Now that can be very messy. But generally if I have two partners, it's important for us to be in agreement. We'll talk, everybody who's involved will talk with supervisors, production people, and we'll try to assess what is our best course of action…..Occasionally, we [owners] have to step in and say, this is what we're gonna do, now I need your support. Most of the time it's a fairly open forum with the people involved."

The owner described an approach that was similar to that of Untours,

"We will talk to the individual and see what their personal situation is. We try to be very sensitive as to what it means to the individual. And that's good business strategy, because if we laid someone off, they're not in the building, they're not here anymore. But what we have remaining is the remaining employees that's just seen what's just happened. And so what you're doing is you're setting a model for what may occur to them. So if they see us acting with compassion and fairness, then they have every reason to think that they will be treated fairly and with compassion as well. So, but we've had cases where we've had to fire people for a variety of different reasons."

One of the owners of GS illustrated how business interests are reconciled with stakeholder concerns though the following example. Sustainability is vital to the firm. In North Carolina, 60 percent of electricity comes from coal-fired power plants (making it one of the largest coal consumers in the country). The GS owner remarked on this with a touch of bitter irony, that "we're the proud owner of helping destroy 400 miles of West Virginia. We use coal-fired power plant—coal powered electricity to get this done." So GS decided to install solar panels which would probably provide 5-7 percent of the electricity that they use. The owner explained that,

"If I really cared about this stuff, I would've spent $700,000—totally offset our electricity. But then we'd be out of business. So it's always a balancing act of doing the right thing, but watching the bottom line."

In another example that demonstrated how GS handles interests and issues that challenge long-term relationships, the owner explained that,

"A lot of times we'll look at our triple bottom line and sort of determine what, what's the best for altering our bottom lines? For instance, just a classic example is, our supplier just had to raise his prices on cotton shirts, and our customers are asking because of the economy, asking us to lower our prices, and so, we're at sort of an impasse. We can lower the quality of the shirts produced in order to lower the price. But you know I don't think we're going to go that route, ultimately what we're gonna try to do with our customers, if they really want a lower price, we're gonna try to get them to lower some of the demands they have on the product itself—maybe one less print location. We fortunately don't have to face those decisions that frequently. I mean one of the great things about having this network of stakeholders is that a lot of times when you're building these relationships they also work with you."

An important question at this stage is that, in the studied organizations, are there any persistent conflicts between stakeholder interests and organizational goals? Based on the available data the answer is no. Throughout all the in-depth interviews and site visits, no evidence has been found that any of the organizations have had or continue to have serious frictions with any of their stakeholders in a consistent way.

The statement above is crucial and needs to be analyzed further. Why are there no serious and consistent conflicts between the studied firms and their various stakeholders?

The answer to the question essentially lies in a different kind of behavior inculcated in employees and managers through a proactive stakeholder strategy of the studied organizations. The important question is different behavior from what other types of behaviors? Generally speaking in corporate America a neo-classical economic view exists. This view may not support conflict but it does support a firm centric approach. We have in our empirical literature review discussed a number of studies in stakeholder theory that support a firm centric application of the theory. If we do follow a purely firm centric approach then we will give importance to only those stakeholders that evidently can affect our bottom line. Additionally, we will not survey our organizational environment to locate potential stakeholders. In the neo-classical mode even our relationship with our firm centric stakeholders will not be build around consensus but it will be build around a zero sum game as evident from the union-management relations in the US.

Going back to our studied organizations the difference of behavior is at two levels: firm and individual. At firm level we have seen that in the studied organizations

have a distinct proactive stakeholder strategy that is manifested in many ways as discussed in the 'proactive organizational policies' section in this chapter. It is, however, difficult to say how the organizational behavior has changed since these organizations decided to be proactively stakeholder. The reason is that J&J has been a stakeholder oriented firm since the 1930s. It would be quite impossible to ascertain how J&J operated before that. Also all the small and mid-sized firms, with the exception of KAF, have been stakeholder firms since their inceptions. As for KAF, since its recreation in the 1970s the firm has been a stakeholder firm.

At the individual level there is evidence that gives us some idea as to how the behavior and attitudes of individuals change once they start working for the organizations in our sample. A J&J philanthropy manager spoke about his initial skepticism, and subsequent belief, in the Credo:

> "When I first got here I was a cynical graduate student and I saw this Credo around. I thought, what is this? [I started] here around the time when [the Tylenol thing] was happening, so I was having a hard time conceptually with them on the national media saying that the Credo guided our decision. I am thinking that, how could a document inform business decisions... It takes a while to understand it I think. … [that] how is this charity thing working, you know. And you know, over time I kind of understood."

Based on proactive stakeholder orientation, the managers and employees of these organizations see the necessity of involving vital stakeholders in their organizational decision making. They understand that by doing so they will not only benefit the stakeholders but will also reduce environmental uncertainty. The organizational core values, mission statements, leadership views and values, and organizational culture, to be discussed in much detail in the Chapter 7, train them to believe that there is no conflict that cannot be solved through dialogue and consensus building.

Here are some quotes from different organizations in support of the above

finding:

A senior manager with more than 30 years experience at J&J explains how

conflicts with stakeholders, from his point of view, are resolved in J&J:

> "I think when there is a situation and the interests aren't, don't appear to match, then…one of the ways that we look to find a path forward is to say, what, what really is at the root of the problem? Why is it that the interests don't match? For example, patients are the people that we're there to serve….And yet at times…we have had a different position…from the patient community…on a particular issue or topic….we would look to try and have some sort of dialogue or interaction, explain maybe our position. And also take time to understand what the impact is going to be on the stakeholders"

Another senior J&J manager while explaining consensus-based conflict resolution

describes consensus thus:

> "Generally, and I think it's important to understand that 'consensus' does not mean that everybody agrees. So consensus is sort of a group decision…and it doesn't reflect everyone's individual opinion…..generally it's the group that is the stakeholder… [and] the representative group generally has an interest"

A KAF middle manager stressed transparency and open dialogue when asked about

conflict resolution in KAF,

> "I think that they have to be in concert, you know they do it, and that bottom line is that, if we're not a successful business, we all lose…There absolutely is [conflict], people don't necessarily….don't always agree….We deal with it by giving enough information on the front end, about how we're going to kind of move forward, and how this is gonna impact you and the organization, and then…we just kind of talk about it, get the elephant on the table, and work through it….we try to confront, have the dialogue, have the conversation in a meaningful way."

At GSB, one manager remarked that conflicts of interest actually do not arise, since the

owners have made the purpose of the firm quite clear. But if one does, it is resolved,

"through consensus." Another senior manager with many years of service with GSB

remarked,

> "I think when you work for a company like Give Something back, there you always take into account all the stakeholders, whether it is again our employees and therefore the benefit of the company, our customers and our community, meaning the community at large, including our environment…..I think it is very possible to look at every scenario and find the common ground….And I think one can truly save favor one person versus the other without endangering the whole."

Another GSB senior HR manager commented,

> "I think it is very possible to look at every scenario and find the common ground"

Summary

In sum, all the studied organizations represent some common features when it

comes to conflict resolution. Most importantly, they represent a different way of looking

at internal and external issues and problems. This different approach stresses building

long-term relations with all stakeholders based on discussion, consensus and arriving at

win-win solutions. Another important similarity is that in essence these organizations

revert to their own mission statements and core principles to resolve more persistent

issues and conflicts of interest.

At J&J, there is stress on building long-term relations and resolving stakeholder

interest issues based on discussion and consensus, but when these issues are not resolved,

J&J managers always get guidance from its Credo.

In the smaller firms we observe similar dynamics. All of these firms believe in

reaching consensus through discussion. When issues persist at KAF, managers consult

their core values. At GSB, the common good and service to community is important;

therefore, in times of stress they revert back to these principles for guidance. At GS, the triple bottom line is the value, so the firm is always looking for a balance between the environment, the community and the business.

Nonetheless conflict resolution in these organizations is not a rigid process that is always performed based on a list of prioritized stakeholders. But these firms, based on their core values, are looking for balanced solutions. As we have seen, the managers in these firms really believe that different stakeholder interests are not irreconcilable, and there is always a way to find mutually acceptable solutions.

Concluding Remarks

Have we achieved the goals outlined in the beginning of this chapter? The three main areas on which we were going to discuss our evidence were: what are main features of proactive stakeholder organizations; how do these organizations recognize their stakeholders; and how do these firms interact with their stakeholders.

Through the discussion of our data we have established some features of proactive stakeholder organizations. We showed that, for internal stakeholders, J&J has specific structures and policies in place to elicit their opinion and make those opinions part of the decisions by the management. We saw that in some cases J&J just would want to get employee opinion on J&J performance or policies, a kind of an assessment of how J&J is doing. In other cases like in the Credo Dialogues, the purpose was to develop managerial tools to improve leadership. Then at the lower levels of organizational structures, J&J employees also have autonomy—and they do participate in dialogues.

In the case of external stakeholders, we discussed the most illuminating example of TT and saw that as a policy TT surveyed its environment and reached out to potential

stakeholders, in this case the AIDS/HIV advocacy groups. They not only reached out to them but also involved them in a meaningful dialogue. We saw corroborating evidence that the dialogue was no sham but actually advocacy concerns were added in the discussion, and later on their suggestions were incorporated in decisions regarding the development of drugs and setting up drug trials.

In the mid- and small-sized organizations, we see similar dialogue and involvement policies and structure as in J&J for the internal stakeholders. Like J&J, in all of these firms, from their point of view, internal stakeholders are also valued and their opinion is taken seriously. However, the mid-sized and smaller organizations show different dynamics when it comes to external stakeholders. We have discussed that in the case of external stakeholders, these organizations do not really engage them in a dialogue. GSB does elicit opinion of customers when it comes to its philanthropic decisions. We also showed the reasons for this difference was their sizes and their industries. That being said, we saw that all of these firms are part of B-Lab, and through B-Lab they have overcome their disadvantage of size and created a collective forum to put pressure on local, state and national governments to create more conducive legal environments for B-Corporations to operate. So in a way they have reached out to become stakeholders of these governmental structures and have tried to impress upon them to cater to the needs of their avowed stakeholders-i.e., employees, communities and environment.

In sum, higher levels of stakeholder engagement lead to higher levels on the RDAP scale. Also proactive stakeholder organizations are more cognizant of their stakeholder environment, and they are on the outlook to find potential stakeholders.

Additionally, such organizations value these stakeholders and their opinions and for that purpose they treat them with transparency, engaging them in discussions on matters of common interests. In short, they develop intricate partnerships with their stakeholders.

In the second important area of recognition of stakeholders, we discussed how stakeholders are recognized by proactive stakeholder firms. The contribution of this work is that earlier works had given some dynamic characteristics of stakeholders. This work suggests there are some fixed and some dynamic stakeholder features. The fixed stakeholder features depend upon the mission statements of the firm and the leadership views. Then there are several dynamic features like: organization of the expected stakeholders; social acceptance/legitimacy of the claim; power and influence; and value adding. Most features have been discussed in previous empirical works. However, self-organization is seen in this work as a vital feature of being a stakeholder that was not recognized in previous empirical works. Additionally, power has not risen as the most important stakeholder feature as was the case in previous research.

In the third area, we discussed how these firms interact with stakeholders. In this area, we saw several similar trends in all of the organizations. These proactive organizations in all cases deal with their stakeholders by engaging them in discussions, dialogues and by being transparent and honest with them. We discussed that this happens due to the fact that the mission statements, organizational values and leadership views make the employees and other managers cognizant of the position of business in society and understand that through discussion and development of consensus all issues can be resolved with a win-win solution.

In discussing our evidence on the three areas of research, we have also made progress in supporting the main argument of this work, which at present having a basic stakeholder policy in which organizations try to outsmart only those stakeholders that affect their bottom line is not enough. The traditional stakeholder strategies were mostly reactive or defensive. In this work, we argue that in the current business environment, organizations need to develop long-term, mutually beneficial and intricate partnerships with stakeholders leading to development of consensus and win-win solutions. To achieve these goals, organizations need to be proactively stakeholder oriented.

In this chapter, we have established that proactive stakeholder organizations with certain features discussed are always on the lookout for new, potential stakeholders and then involve these stakeholders in a dialogue to create consensus. We have found that stakeholder interests and organizational interests are not mutually exclusive. Proactive stakeholder organizations based on their values, mission statements and policies are able to balance these interests and create mutually beneficial arrangements, an area that will be further discussed in detail in Chapter 8.

Chapter 7: Engineering of a Proactive Stakeholder Organization

"Culture means not only the implicit and explicit rules that guide and shape their (management) own behavior and experience of work; it is also the vehicle through which they consciously try to influence the behavior of others. The 'culture,' in this sense, is something to be engineered–researched, designed, developed, and maintained– in order to facilitate the accomplishment of company goals"

Kunda (1992)

In Chapter 6 we established that proactive stakeholder organizations represent a specific behavior towards internal and external stakeholders. But, how is this behavior created? By examining the processes and structures that initiate, maintain, and perpetuate a proactive stakeholder culture in an organization, we reveal how proactive stakeholder behaviors are inculcated. We will examine: what are the cultural features of the studied organizations? How are proactive organizational cultures initiated? How proactive stakeholder cultures are maintained and perpetuated? And what are the changes in managerial attitudes to create a proactive stakeholder culture?

As noted earlier in this work, the purpose of the present study is an exploration of stakeholder management as a phenomenon. In Chapter Six we discussed the distinctive features of stakeholders and found that while some characteristics that identify stakeholders in the eyes of managers are fixed, others are dynamic variables. We also sought to understand an important, yet hitherto unexamined aspect of stakeholder management: conflict resolution. In other words, Chapter Six added to theoretical generalizations in one of the dynamic aspects of stakeholder research.

Chapter Eight will further discuss an important aspect of stakeholder management that has already been relatively well researched – the link between stakeholder strategy and a company's objectives. We will examine the benefits of stakeholder management in terms of its relationships with its stakeholders, as opposed to its statistical performance.

We will also examine some of the issues that the sample organizations have faced in their stakeholder strategies and some general issues related to stakeholder management.

In this present chapter we will study another unexplored area in stakeholder theory—i.e. the process of creating and maintaining a stakeholder organization.

Every organization is created to achieve certain goals. In order to do this, it is necessary to develop a certain type of organizational culture. A particular organizational culture is often shaped by consciously establishing certain policies and structures. In this chapter we will discuss how organizations in our sample created their stakeholder cultures. For this purpose we will review the specific cultural features of each organization, how each culture was created and maintained, what are the prerequisite behaviors required to create proactive stakeholder organizations, and what defining policies and structures served to establish and perpetuate their stakeholder-oriented cultures. It should be noted in passing that the creation and maintenance of a stakeholder organization's culture is an aspect of stakeholder management that remains unexplored.

Cultural Features

Before examining the specific means by which the cultures of the companies under review were initiated and sustained, it is helpful to first briefly look at some of the culturally distinctive features of these organizations (Box 7.1). In Chapter Six we mainly discussed the proactive stakeholder features and strategies of the studied organizations. In this section, we will review these and other aspects from the standpoint of each company's internal organizational culture.

An important observation is that cultures of the studied organizations are built around their espoused values. In other words these are value based organizations. Two

important questions are posed here: What is a values-based organization and what is the relationship of these professed values to organizational cultures?

It is true that all organizations are based on some values, but in the context of this present work, a values-based enterprise is one that has a proactive stakeholder orientation.. As discussed in Chapter Six, the studied organizations rank high on a Corporate Social Performance (CSP) scale. These are organizations that are interested in doing good business and in being successful in their respective industries. But at the same time, they believe in improving their surroundings. They seek to include their internal and external stakeholders in decision-making and they exceed their minimum legal responsibilities towards serving their communities.

We have also established in Chapter 6 that not only the studied organizations profess being proactively stakeholder but they also prove it through their actions by applying their values as a business strategy. When an organization has specific values and those values are also manifested through its actions then it stands to reason that it has created an atmosphere or culture within the organization to create and encourage employee and managerial behavior that is in sync with its values. Intuitively the connection between organizational values and culture makes sense, nevertheless, one of the main purposes of this chapter is to discuss and assess this link.

We have in Chapter 6 discussed the proactive features of the studied organizations; therefore, in this section we will briefly go over them and additionally we will discuss evidence of internal organizational cultures specifically as assessed by the employees and managers.

As in the following section we will primarily give evidence of internal stakeholder cultures, one points need to be clarified: one, the link between family-like and informal organizational atmosphere with a proactive stakeholder organizational culture? It must be admitted at the outset that there is no direct link between family-like or congenial informal atmosphere with proactive stakeholder orientation because an organization with informal atmosphere could still be a non-stakeholder firm. But we do know that the organizations in our sample are proactively stakeholder firms. As a part of being a proactively stakeholder they value their employees as internal stakeholders. Therefore, when we put the overall congeniality of organizational atmosphere with being internally stakeholder oriented then it can be seen as an extension of the proactive stakeholder strategy.

Box 7.1

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Proactive Stakeholder Organizational Cultures

External Stakeholder Features
- Surveying the environment to recognize potential stakeholders
- Engage stakeholders in dialogue
- Find mutually beneficial solutions

Internal Stakeholder Features
- Value employees
- Open communication
- Transparent and trust based management style
- Employee opinion is sought and valued
- Congenial friendly atmosphere

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Johnson & Johnson

The J&J Credo is based on values that were exceptionally advanced for the time in which they were adopted. It was unique in stating a priority list of its stakeholders in

which customers were placed at the top. This made good business sense, but it also placed employees and the community above J&J's shareholders.

Even though the J&J Credo was developed by its early founders as a guiding principle, it remains to this day a basic measure of success for J&J. We discussed in Chapter Six how the Credo is seen as a living document and continue to drive business decisions and how managers and employees use it both as a yardstick of success and as a measure of their behavior. One middle-level J&J manager expressed her belief in the Credo as follows:

> "In my experience in seventeen years…we've seen issues where things have gone awry, you say, you know, you really didn't follow the guiding principles here. Because if you had, you really wouldn't be in the trouble you're in today."

Based as it is on its credo, J&J constitutes a proactive stakeholder organization. Being a stakeholder organization has many implications for its organizational culture. In Chapter Six we established that J&J at the corporate level is a stakeholder organization. Based on its stakeholder strategy, J&J gets involved – both internally and externally – with local, national and international stakeholders.

Internally, J&J has created an entire system of involving its employees in the decision-making process of the organization. It has created structures and practices that help the organization keep a finger on the pulse of its employees. Employees at different levels have a lot of autonomy, and their views and suggestions are treated as important input.

Externally, as we discussed in the previous chapter, J&J says it engages stakeholders at multiple levels and for multiple reasons. It engages stakeholders and potential stakeholders for business purposes as in the case of TT. It gets involved with

U.S. and other foreign governments to: promote industry specific and broader beneficial legislation; establish better practices in pharmaceutical industry internationally; weed out bad competition from the industry; create better modern healthcare systems in other nations; and create more business opportunities globally. Finally, J&J is intimately involved in philanthropy at local, national, and international levels.

An important question to address at this point is what impact has J&J's stakeholder strategy had on its culture? As discussed in Chapter Six, J&J views internal stakeholders – its employees – as an important asset. This has led to the creation of structures and policies that create an internal atmosphere of open communication, trust, involvement, loyalty, autonomy and transparency – resulting in an emotional bond between employees and the organization.

Externally, the same policy has shaped J&J as an organization that believes in a long-term view of business and society, in which company decisions are made in a consensus with the community as a whole.

By basing itself on its stakeholder strategy, J&J's view is that it has become an organization committed to developing long-term, trusting relations, based on a consensus that results in win-win solutions. At the same time, J&J is also a business firm that must – and does – prosper in a highly competitive industry. Its managers and employees understand this. But they also understand that it is precisely by being a stakeholder, collaborative, value-based corporate citizen, that J&J in the long-term also gains a business edge.

Mid- Sized Organizations

In Chapter 6, we covered the proactive stakeholder orientation of all organizations in this study. We found in the case of the medium sized organizations that the external side of their stakeholder strategy was not as developed as J&J's. There are several reasons for this mentioned in Chapter Six. The main reason lay in the size and scope of middle level organizations. Such limits on the scope of mid-size companies constrained their interaction with outside parties. It likewise put a limit on the number of people such organizations could reach and affect.

These smaller organizations are, as a rule, limited to local communities or regions in the U.S. This means that their markets and the communities with which they interact are not as wide. This smaller scope therefore reduces the number of actual and potential business and other community stakeholders.

Another important characteristic of smaller companies is the kind of businesses they are engaged in. Their products and services do not have as serious an impact on the lives of their customers as those of J&J.

When we place the above factors side by side, we can better understand why smaller organizations cannot and need not to concentrate on as many stakeholders as J&J. Due to their low impact and small size, their relations with even strategic and business stakeholders cannot be potentially as proactive as J&J. This is the case, in spite of their efforts to interact with the latter through personal, long-term relationships. Therefore, based on the above factors these firms do not need to be proactive in the real sense of the word.

Based on the above reasons, we classified these firms not as purely proactive organizations. Nevertheless, all three medium-sized organizations have a strong

relationship with their local communities. They interact with their communities and they consider themselves to be a part of it. They play a constructive role in them by contributing to, and engaging in, various local issues and charitable causes. As pointed out earlier, their relationships with business-related stakeholders (vendors, suppliers, etc.) are based on a long-view philosophy.

There is however one exception. In the case of GSB, we found that, along with similarities to the other two organizations of its category, it also has a unique stakeholder feature: it donates funds to NGOs. In this regard GSB is more proactive in its community relations. And in the course of its donation practices, GSB is able to reach out and glean the opinions and preference of its customers.

Having concluded our review of the external stakeholder features that are shared by medium-sized firms, and the impact that these have on their culture, we now turn to their individual cultural features.

Dansko may be classified as a values-based organization in the sense that it places emphasis on a well-rounded view of its business practices and their place in society. As a member of the B-Lab, acting as a stakeholder organization is part of its charter. And as a member of B-Lab, it likewise pursues the B-Lab goal of promoting legislation in states that offer stakeholder and other socially responsible organizations special benefits. Dansko believes in serving its community and in maintaining long-term business-to-business relations.

Treating employees as internal stakeholders plays an important part at Dansko. As discussed in Chapter Six, Dansko sees its employees as a source of competitive

advantage. Therefore, employees are given certain autonomy. As a Dansko top HR manager explained,

> "There is a level of individuality.... We want people to be able to work independently; to be empowered to make decisions….[We] have a lot of very talented people here who are very smart. We want them to be smart, make calls, make decisions. That's kind of part of all the culture."

In addition to granting its employees autonomy, Dansko also extends other organizational means in order to involve them in decision-making. In Chapter Six, we touched upon the example of how Dansko employees are engaged in setting new goals through a company-wide survey (conducted in September 2008). This survey was comprehensive; covering all vital aspects of how employees see Dansko and what direction they want it to take in future.

We now turn to the question of how its employees see Dansko as a workplace. One employee commented about the atmosphere at Dansko,

> "I am dressed up informally, I don't have a collar on, I don't have a suit on or anything like that. That's certainly part of the culture – that people want to have fun part of their daily activities, not just boring job. You know you're going to have fun interactions with people throughout the day."

Another employee expressed similar views:

> "Amazing…..the culture is just phenomenal….We are [like] a family…. [its] fun"

Another added other adjectives,

> "Amazing, green…give back to the community…not about making money…. [but] doing everything the right way even if it costs more money….It's a very family-oriented business. You don't feel like you are a corporation. You don't feel like you are just a number. You actually feel like a person – and they do a really good job of making you feel that way."

Based on this perceived family-oriented atmosphere, Dansko's trust-based autonomy system, its emphasis on integrity, and its efforts to make it a fun place to work, the employees have come to believe that Dansko is a generous company. They feel that they are treated well overall. The following words from an employee indicate how they feel on this score,

> "When people ask if I have benefits – I have benefits beyond benefits. Its beyond medical, its beyond dental, it's [has] the education benefit if I want to go back to school. They'll invest in my future. We have a fitness benefit where we can work out, and we have a fitness center if we are on campus. And we can use money towards the YMCA or another fitness center…..You know just to do whatever you are passionate about is what Dansko wants you to be passionate about. [They]just let you do what you want to do."

Employees also feel that lines of communication at Dansko are very clear and that top management is always available and ready to listen to them. The following comments corroborate a number of points that the managers have earlier made about open communication and how employees have a voice and autonomy,

> "I feel there is just not a whole lot of secrets, especially when you put that kind of information in print form….I just feel like that there is nothing that's really off the table….[Owners] are very visible people, [and] they know our names."

Another employee added,

> "I have a pretty good range of decision making.... I have a close relationship with my boss. I could just discuss things with her, just to make sure I am going the right route. But for the most part, I could make decisions for the department on my own."

Turning now to Give Something Back (GSB), we can safely state that this organization is also primarily value-based. It is also a member of B-Lab, and as such, is extensively involved in B-Lab activities. As a values-based business model, GSB offers an example that is matched by very few other organizations in the U.S. As discussed earlier in Chapter Six, GSB donates most of its profits (almost 80 percent since 1991) to

NGOs and other social causes. The motto of GSB is "where value meets value." This means that GSB creates value for its customers by providing the highest quality products at competitive prices, and then adds value to the community by donating profits. The main purpose of GSB, as discussed in Chapter Six, is to serve the community.

GSB is also a stakeholder-oriented organization. This means that it promotes long-term relations with internal and external stakeholders. It also supports a culture in which the expertise to resolve conflict of interests between various stakeholder interests is promoted. In fact, the owner and top manager of GSB, as discussed in Chapter Six, believes all conflicts should be amicably resolvable into win-win solutions.

In the eyes of its employees, the culture of GSB is informal, family-like, supportive, team-based, collaborative and participative. It encourages employee engagement.

The following comments by GSB employees express some internal cultural aspects,

> "I like that I can come and stay focused and get my job done and do what I need to and the fact that we all work together as a team. I know some of this sound[s] kind of flowery, but it's true"

One employee commented on GSB's family-style, easy-going culture,

> "We are a family….It's a very family culture. People who work for Give Something Back are typically...optimistic….We laugh at ourselves and we laugh at each other….We are hopeful and we believe in…waking up every morning and doing something good."

Another employee commented on the same themes:

> "It's okay to wear jeans to work. We don't have to wear a suit and a tie. So in that fashion it's rather relaxed…..It's like a small family….We can have that feel. We are a small company, and everybody pretty much knows everybody else."

One employee described GSB's workplace autonomy:

"I'm allowed autonomy regards to how I coordinate projects. I'm not micromanaged at that level."

Since the 1970s KAF has been based on certain moral values. These include serving the customer. This is not limited to the way that KAF labels lists ingredients exactly. KAF values include the promotion of long-term relations with business stakeholders and its community. The main aim of KAF interaction with the community is to add value to the latter.

KAF likewise cultivates a culture of valuing its employees and provides them with a family atmosphere at the workplace.

Because the organization is employee-owned (as discussed in Chapter Six) the level of employee involvement in KAF decision-making is relatively high in comparison to the other two medium-sized companies examined in this study. We also saw in Chapter Six that KAF's employee ownership prompted most employees to see themselves as the most important stakeholders. This not only makes KAF a stakeholder organization internally, it also enhances the relationship of KAF employees with the local community. Employees who feel greater pride about where they work are more inclined to feel the same way about where they live. Employees at KAF want to contribute to their local communities even without the benefit of getting paid for it. KAF engages in this, up to a certain limit,

"We have people…that do [community work] and then do more on top of that [paid work]. You know, we don't necessarily pay them for it, but they keep going with the program."

All of the above has served to create an organization at KAF that is based on teamwork. It is collaborative, and has a friendly, open and informal

atmosphere. That KAF values employees and their opinions was spoken to by one

of its workers,

> "There's a collegiality, where everyone is valued….Anyone in the company can go to [the] president, and say 'Hey, I want to work with you' and they wouldn't feel bad doing it, because he's very open. I think that's a difference… [the culture is] friendly, family-friendly especially.…It's collaborative and collegial.…It's very team-oriented, *really* team-oriented. You know, it's kind of like the Asian culture."

Another employee commented on KAF's informal, collegial and nurturing culture,

> "I think it's a very comfortable place to be. People show up, generally very enthusiastic about what they're asked to do. It's fairly casual, it's very open.…I think it's an environment that people are free to rise to their highest potential, and you know, be their best if they choose to."

Small-Sized Organizations

In the case of the smaller stakeholder organizations, discussed in Chapter Six, we

established that they are more limited in their external stakeholder relations, in

comparison to medium-size companies. This again is a result of their smaller size and the

lesser impact and importance of their products. However, we also discussed how they are

nevertheless active in their local communities.

Internally, GS is fairly democratic, and its employees are involved in the decision-

making process. It is also an informal organization with a relatively egalitarian low power

distance and a close-knit family atmosphere. This dynamic was addressed by a GS

manger,

> "Our employees like the job, and I think it's a fun place to work because, I would say, with most people it's more than just a job. Yes, they need a paycheck, yes they got bills to pay, but it's the relationship that they have with the company, with the people that live [in the community and] with our customers…So I think [it is] a very positive culture."

Another manager explained that decisions on sensitive issues such as layoffs bring out the

consultative and humanistic side of the organization,

> "If someone's getting laid off, we don't engage them in the conversation. At the
> first step we talk about what the opportunities for staffing might be. But we will
> talk to the individual and see what their personal situation is. We try to be very
> sensitive as to what it means to the individual….It's very important to be
> compassionate, to be fair, and sometimes we have to act decisively."

Untours (UT) was discussed in the previous chapter as a stakeholder-oriented

organization, both internally and externally, yet it is also a values-based organization.

UT's founders created it specifically to serve the community, create local jobs (through

its foundation, which extends loans to small local businesses), and to promote community

causes such as Fair Trade sustainable business practices and environmental conservation.

These values will be discussed in greater detail in the next section on the role of

owner/founders in the culture of the firms under review.

UT culture as a whole is accommodating, family-oriented and fun. One UT

employee explained how she was hired and came to feel the family supportive culture of

the organization,

> "I was walked through the office and I came into the kitchen and I saw a TV
> and I was like, hmm, a TV in the kitchen. That's kind of odd. And I think [the
> general manager] noticed that I was looking at the TV and mentioned that, 'Oh
> you know sometimes the baby sitter doesn't show up, or sometime people get
> sick and sometimes they have to bring their children in here.' And you know,
> which in reality hasn't really happened that often, but you know, kids have been
> here."

Another employee described UT's culture in these words,

> "It [culture] is very relaxed….you can wear anything you want,…which is
> refreshing….Where we are all friends, help each other when necessary, we are
> very flexible....But everyone is a very hard worker and can help each other in
> that as well….Its [culture is] hard-working, flexible and very relaxed."

Untours puts trust in its employees that generates trust in return. This is evident in the comments of an employee,

> "I just feel it's a trusting environment and lot of trust is placed in me in handling situations…I kind of felt it was there from day one. I started and on the second day I got a set of keys to the office….I thought, wow, they don't know me at all, I have access to all of the office. I can come in here weekends you know, (laughs) clean out the computers or something, so I felt that was pretty stunning….I just feel in general there is a lot of trust placed into people and I think it comes back to the company."

UT also has a participative, team-based work environment that affords autonomy and a voice to employees. UT's general manager commented on the work organization,

> "The work environment is participatory. We have a…structure [wherein] we have….destination-focused teams….Within these teams there is a team leader who…is not middle management *per se*, but [is] someone who has the responsibility for coordinating the activity of the team."

An employee commented on the voice, transparency, and openness afforded to fellow workers,

> "[The general manager's] door is always open to people. ……It's always very open. We have sales report every week, we have how many clients we have traveling, and you know, how much money we are spending on the Untours Foundation."

Summary

In this section we have discussed the main cultural characteristics of the studied organizations.

J&J's strategy is based on its view that it is a value based proactive stakeholder organization. Its values are clearly stated in its Credo. The J&J Credo is seen and understood as a living document and is applied to business decisions. In all the J&J interviews it was more than evident that J&J Credo is a reference point for all employees

and managers in decision making, especially, when the decision involves other J&J stakeholders.

The more important question was that how the Credo values and a proactive stakeholder strategy affect J&J's culture? J&J based on its stakeholder values has an internal culture of openness, trust, collaboration, loyalty, and autonomy. Externally stakeholder values manifest themselves in the shape of J&J's penchant to develop long-term, trusted relations with all its stakeholders to achieve win-win solutions to all stakeholder issues.

In the medium sized firms as well we have found that they are all based on clearly articulated values in which employees are valued and are involved in organizational decision-making. These organizations believe in creating informal, autonomous, and family like cultures. The management and even the owners are easily accessible and maintain a close relationship with the employees.

Externally these firms have little impact but we saw that all of them are very active in their local communities and have a policy of developing long-term relations with its external stakeholders.

The smaller organizations have also similar cultural features as the medium sized firms internally. Externally, their impact is even more limited but again these smaller firms are also B-Corporation members.

Even with major differences in size, internally, all organizations in the sample have similar cultures. They all believe in values that put businesses in the society in a place where money making is not the only purpose of a business. They all rest on a

positive view of human nature as manifested by their treatment of their respective employees as assets and not as a cost. Where employee potentials are developed and they are not only given autonomy but their opinion is sought to assess managerial and organizational performance.

Finally, there is another similarity between these organizations. These firms do not see any conflict between values based business practices and competitive spirit. In all of the interviews done in all of the firms this feature was very conspicuous. The members of these firms no matter if they are making life saving drugs or comfortable shoes believe that by serving the community and their other stakeholders they are serving their business interests.

Initiation: Created from the Top

Johnson & Johnson

J&J was created more than 120 years ago with the idea that doctors and nurses should use sterilized bandages to treat wounds.[39] It was founded as a family business by Robert Wood Johnson I. The organization had a distinct socially responsible character from the beginning, but these views were only codified later, in the form of a Credo and a distinct business strategy, by General Robert Wood Johnson II in the 1920s and 30s. Therefore, in J&J's case, the stakeholder culture that exists today was formulated more than 60 years ago and generations of managers since then have kept it alive and current.

This section on the Initiation of Stakeholder Culture is divided into three subdivisions: the initiation of this culture; the role and efforts of later generations of managers in sustaining it; and a look back at older cultural values from which current

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39 http://www.jnj.com/connect/about-jnj/company-history/?flash=true (Jan 11th, 2011)

stakeholder culture developed. It is in this framework that J&J's distinct history, which

significantly differs from other sample organizations in this study, is reviewed here.

Box 7.2

Initiation of Stakeholder Culture from the Top

"In J&J's case the mythic figure is General Robert Wood Johnson….Part of what emerges from [his] legendary status [is] his personal generosity and benevolence." **(Senior Manager J&J)**

"The leadership within this organization takes [communicating J&J values] very seriously. And when they step down or they leave, they [have] spent a lot of time educating and providing information to the new leadership about what is important" **(J&J Manager)**

"I think that…it really started from the owners, and I think that they've set a precedent and people [that] have started out here….realized that this is something special."
(Dansko Manager)

"Everybody is contributing to it….Our CEO though, really is the strongest voice….He's just a huge supporter of the ESOPs and the ESOP structure, and he's a big player in that world, outside of King Arthur Flour." **(Middle Manager KAF)**

In the first subdivision we will focus on discussing General Johnson's views on

economics, business, philanthropy, management and responsibility to societal

stakeholders. These views are mostly drawn from his book, *People Must Live and Work

Together or Forfeit Freedom* (Doubleday: Garden City, N.Y., 1947). In the second and

the third subdivisions we will discuss the role of J&J's present top management in

maintaining its established values and how the company's original culture is manifested

in today's J&J policies.

General Johnson's book begins with recognition of deep-seated problems in the

U.S. economic system. He wrote that, "we are in trouble, you and I, yet we get in deeper

almost every day" (p. 1). He was a capitalist who wanted to save the private enterprise

system and argued that the economic system that had worked so successfully during the

Second World War needed to be reconstituted. He opposed Herbert Spencer's linking of Charles Darwin's theory of natural selection to Adam Smith's economic theories. He believed that this combination created a mindset which affirmed that, "poverty was the normal result of weakness, while riches became evidence of fitness to survive" (p. 12). Based on the views of Pope Leo XIII, General Johnson raised three criticisms of the doctrine of economic liberalism, which he argued resulted in a concentration of wealth, to the detriment of society. According to General Johnson, economic liberalism created an environment in which monopolies were built behind a screen of free competition, while workers were left unprotected by institutions and laws from the power of wealth and thereby forced to accept low wages and poor working conditions.

General Johnson believed that the solution to the above problems lay in putting a check on the greed of businessmen and in providing workers with a living wage. To him, a living wage was "one that will buy decent living–not mere subsistence–for each worker and his family" (p. 53). His main goal was to strengthen a white-collar middle class that would have the purchasing power to buy the goods and services of the economy.

General Johnson also addressed the conflict between labor and management. He opposed labor-management conflicts that led to a loss in confidence in the economic system's viability. He believed that the need of the hour was to restructure the economic system so as to eliminate its antagonistic basis and replace it with one based on agreement and partnership.

On labor-management relations, General Johnson agreed with Australian sociologist Elton Mayo and argued that, "worker-management relationships…remain primarily human and depend on personal and social factors far more than on economics"

(p. 102). The solution to labor-management conflict, according to General Johnson, lay in treating workers not as mere instruments for profit, but as human beings. According to General Johnson, "as a human being, no worker can thrive and give good service in the void of loneliness. He must feel that he "belongs"; that he is a responsible and respected person, who counts for something in his group. With this must go dignity and satisfaction in the job beyond the pay for doing it. Each employee must understand his work, not merely as a set of movements, but as a part of the operation of his plant, office, or store" (p. 104).

Finally, General Johnson in his book gives his industrial code, which was the basis for J&J's Credo. According to this code, the first priority of a business is its customers, secondly its employees, thirdly its management, and fourthly, its shareholders. The company's responsibility to its shareholders was put fourth because, as General Johnson explained, "only if the other three have been met, or plainly can be met, is it worthwhile to consider the future of any business enterprise or ask what it should receive" (p. 81).

General Johnson's book leaves one with the impression that he wanted to save capitalism from itself. The book was written in defense of capitalism at a time when the world had just experienced fascism and socialism. He did not want to do away with capitalism, but to reform it, by reducing the negative results of liberal capitalism. The latter was based on borrowing Darwinian concepts and coupling them with "laissez faire" policies for governance of the capitalist system. General Johnson's message is clearly understood by today's J&J's management. As one top manager in philanthropy commented,

"I think if you study the history of the Credo, it was written as a defense or manifesto to capitalism. Robert Wood Johnson Jr. felt [that] the popularity of the socialist candidates in the U.S. and the success of socialism in Europe and around the world required [that he] share [his] point of view.... It began with the belief that workers should feel proud about the companies that they work for, and that wasn't the case in 1946."

He further added,

"Going back to the history of the Credo, it was born out of a crisis. There were many social and political crises in 1946….Johnson worried about people losing their pride….The culture was to make people feel proud of the products that their hands actually touched. But as this became more difficult due to mechanization, it became important for him to make people feel pride in the company that they worked for."

Gen. Johnson remains an iconic figure in J&J to this day. Although he represented the second generation of owners, his impact on J&J's present culture and operating principles is perhaps the most lasting. Especially at higher levels of J&J management it is common to hear the name of General Johnson and what he stood for in the course of conversations. As one senior manager who had spent a number of years in J&J's business and philanthropy side commented,

"In J&J's case the mythic figure is General Robert Wood Johnson….Part of what emerges from [his] legendary status [is] his personal generosity and benevolence."

In the preceding few paragraphs we have established that General Johnson, as an owner, set the tone for the present-day culture and operating principles of J&J. This poses a question. If the General's book came out almost 65 years ago and if he himself remained on the board of J&J only until 1968 – since which two or three new generations of managers have passed through office – then how is it that his culture has persisted? One manager whom I interviewed helped answer this question. He stated that a

stakeholder, long-term view, has always been rooted in the basic nature of the organization,

> "I think that it has always been in the DNA of the company since its founding. It was a small company and the founders were responsive in their own way to the community….J&J was trusted by the medical profession. They [J&J], were actually proactive in publishing because they were talking about antiseptic bandages at a time when theories were not fully accepted about germs in the operating room as the invisible killers. And so they had to educate the professionals. So this is an interesting, subtle, but an interesting, point....A for-profit enterprise [was] educating consumers about how to buy a product and why to buy a product, based on the evidence."

Based on the above statements, we can see two factors, which serve to perpetuate J&J's culture. Firstly, there are the efforts of its present leadership, and secondly are the deep roots of the company's normative code.

Now we will mainly discuss the role of J&J's present management. HR management policies and organizational structures will be discussed in subsequent sections.

By all accounts, J&J leadership takes quite seriously its role of preserving the continuity of the Credo's values and of imbuing the next line of leadership with its spirit. One senior manager commented on how this role is fulfilled,

> "What I have seen is that the leadership within this organization takes [communicating J&J values] very seriously. And when they step down or they leave, they [have] spent a lot of time educating and providing information to the new leadership about what is important and what success looks like as far as the culture, and not to lose sight of it. So it is kind of generational, where when one generation of leaders steps down, or is no longer there, the new leadership kind of goes through this learning process with the elders if you will. So it's handed down from [one] generation [to another]."

Another senior HR manager added examples of the role played by J&J's top leader in this process,

> "Our CEO, travels around the world. [With] any newly promoted VP, [he will] spend two days with them, talking about our credo, and what it means. [He discusses] their roles as senior leaders, and their commitment to live up to the values of our credo. It's a very powerful dialogue and interaction, and those senior leaders make a commitment that they're going to have credo dialogue[s] and discussion[s] with their leaders."

At J&J leadership is expected to live by the credo and thus lead by example, the senior team ensures that newer generations of leaders are not only aware of Credo values, but understand that their continued success at J&J hinges on applying them. This is an aspect that will be further discussed later. Here we will briefly review top management's expectations of new leaders.

A senior HR manager elaborated these expectations by describing the core values set out in J&J's global leadership profile of new leaders. Candidates for promotion are assessed, beyond their professional and job requirements on twelve areas of competence that will be discussed in detail in the section on maintenance and perpetuation of culture.

J&J management so thoroughly infuses the company's daily operations with the Credo that both they and their employees often believe that, while the maintenance of J&J culture may begin at the top, it is nevertheless perpetuated by all members of the organization. This is another phenomenon that will be later discussed in greater detail. Suffice it for now to consider a comment from a middle-level manager, which addressed the question of who creates and perpetuates J&J's culture,

> "Top management wants [J&J value-based culture, but]…it doesn't feel that way. They obviously do, but it feels like that's who we are and everyone has responsibility to have us live up to who we are. So as I came into the organization and moved up....I never thought there was a different way. This is who we are and the Credo is over 60 years old. So it is part of how we have done business. And certainly senior leadership reinforces that, but I feel it's more that we all want it and they want [it] and that they make it happen."

From the above we can draw a number of conclusions. Firstly, it is evident that J&J culture was initially created by its owners, specifically, by General Robert Wood Johnson. Secondly, we also find that in the period following his tenure, that this culture has been preserved by selecting Credo-oriented managers for top positions, a process that will be further discussed in section on maintenance and perpetution of culture. Thirdly, we see that once in office, these new leaders ensure that everyone in J&J becomes imbued with the Credo's values.

Medium Sized Organizations

In the above discussion of J&J we reviewed how the owner's and founder's worldview shaped the company's original overall culture, and how it continues to shape the policies and precepts of its current owners. We measured this by examining General Johnson's views on issues of business, labor-management relations, and the place of businesses in society and the obligations of organizations operating within a community. We then briefly compared this to the efforts of top management to inculcate employees and lower level managers with the value system codified in J&J's Credo. We also discussed how promotions at J&J are based on leadership parameters that require candidates to be not only conversant in the principals of the Credo, but to be its practicing adherents.

As we turn to a discussion of medium-size organizations, we find that the relationship between the founder's worldview and the companies' culture is more direct. One reason for this is that, as a general rule, the original owners of medium-size organizations remain closely involved in daily operations.   An exception to this rule is KAF, which is a 100 percent employee-owned organization and where the original

owners are no longer with the firm. Therefore the link between the founding owners' outlook and KAF's culture is at most indirect. However, a qualification needs to be placed on this observation about KAF, and about Dansko. The researcher was not able to interview the original owners of these companies, so their worldview could not be precisely established. But all the same, interviewees from these organizations believe that the tone of their company culture was set by their original owners and top managers.

Although direct data from Dansko owners was not available, we have already established in Chapter Six that it is a company that well meets the criteria of a stakeholder organization through its high level of corporate social performance. This performance includes maintaining long-term mutually beneficial stakeholder relations with its internal and external stakeholders throughout the community.

In addition to its corporate performance, Dansko also shares a common culture with other stakeholder organizations. One way to ascertain who is behind this stakeholder culture is through the approach used with J&J: assessing the views of the owners from historical documents, interviewing the current top management about their worldview, and then comparing this to what employees and managers at various levels had to say on this same subject. But since we did not have access to Dansko's original owners, we will have to deduce their worldview from the established fact that Dansko is a stakeholder organization.

For the other side of the comparison, the researcher was able to interview Dansko employees and managers from various levels on the question of who sets the tone of the company's stakeholder culture one senior HR manager commented,

"I think that…it really started from the owners, and I think that they've set a precedent and people [that] have started out here….realized that this is something special."

A senior financial manager described how the philanthropic pursuits of the organization are directed,

"There's the interest of the owners….which includes a variety of different things from the point of view of programs... [and] different causes if they are very interested in [them]. So, so it's really a whole bunch of different things, but it really starts from the founder."

An employee remarked on who started the green initiative of the firm,

"[The owner] started [it] up, in a Dansko group meeting [he] said I want to start a green team and anybody who is interested, come and see me. And that's how we got started."

Another employee remarked on how the owners started it and how they are making efforts to carry on Dansko's stakeholder culture,

"It's one of those things that is developed over time….It's the people who started it….The founders – it's just them. They're hiring people that are fitting into that mold. I think that's really the start of this, and you establish a set of procedures over time and certain things [get] embedded….If you…set up people properly you are going to attract and keep the kind of people who will keep that [culture] going."

Another employee pointed out that the Dansko Foundation, which donates money to NGOs, was started with the owner's own money. It now gets funding from Dansko retail sales,

"Two percent…from the company's sale…goes to the Dansko Foundation....A percentage of all the sales on our outlet stores online goes to the Dansko Foundation. And then, the [owners] have obviously put money into this endowment and it is used for nonprofit organizations."

In the case of GSB, the founders of the organization[40] were the original trend setters for its stakeholder culture. This organization, as discussed in some detail in the previous chapter, was created to serve the community. They take a broader view of society, a view in which healthy employees and citizens are an asset. They believe that the company is accountable to all of its business and community stakeholders. The main idea of the owners was to use the power of business to bring about positive change in the community. For this purpose they donate over 80 percent of all GSB profits to NGOs that serve diverse causes throughout several states.

If we apply Carroll's (1991) definition of corporate social responsibility, these GSB donations are the 'cherry on top,' the additional benefits that socially responsible firms provide to the community. GSB's stakeholder orientation also has other aspects. It treats its employees well and fairly and provides them with steady employment. It likewise strives to develop long-term transparent relationships based on mutual benefits with its business stakeholders. It promotes green values not only in its own offices but also in its clients. Finally, it is a viable business.

GSB's unique business model, which promotes philanthropy, but separates the latter from its business side, was earlier discussed in some detail in Chapter Six. The question before us now is how, and on what basis, was GSB's model initiated?

One part of the answer lies in GSB's business model. By not having shareholders to answer to, the owners are free to channel profits back to the community instead of to the shareholders. They understand that this model is initially difficult to sell to banks

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40 The following views are based on a lengthy interview with one of the owners, which include two audio recordings and e-mail correspondence.

when it comes time for GSB to seek financing, but once it is explained, it makes sense to

bankers as well.

The owners also lead by example. Rather than collect a share of the profits, they

are paid a salary, just as any other employee. According to one of the owners,

> "Our incomes are based on the jobs that we do….I am the president. You could figure out in the San Francisco Bay Area what [is] the typical precedent of [how much] a 30 million dollar, privately-owned office-supplies company would make….My company, limits me to making no more than 70 percent of that number."

GSB was one of the pioneer companies in the creation of the B-Lab. The

reasons for creating B-Lab were twofold: one was that the founders wanted to

provide customers with,

> "A verified standard of…sustainability and social responsibility…..So that's one part….[B-Lab compliance seeks] to provide a standard by which consumers can be comfortable that they are buying from a company that has a positive influence in their community and is run responsibly according to all kinds of definitions."

The second reason was to protect managers from possible liability for business

decisions that place the interest of stakeholders above those of shareholders and

financiers. A GSB owner explained that a B-Lab designation was established so as to

create,

> "A legal status that would allow stakeholders other than investors and financial stakeholders to [be] recognize[d] within the corporate charter,…so that companies like ours, [which] have a commitment to donating our profits to non-profit organizations…wouldn't be subject to legal restrictions….[The] law requires corporations in California and most other states to operate in the financial best interest of their investors. So obviously giving all the profits away is not in the best interests of the investors….So if the [the firm] is a legal B corporation, then we can protect the company mission against any legal challenges of investors."

As mentioned above, the philanthropic mission of GSB is not a function of its business side. Its philanthropy and stakeholder culture stems from the owners' worldview. One owner explained that GSB's sales are not primarily driven by the company's philanthropic reputation, but by consumers' needs for GSB products. The owners fashioned their business model on the precedent set by Paul Newman. Most of his customers are unaware that the profits from the sale of Paul Newman's spaghetti sauce or salad dressings are donated to national charities. One GSB owner explained,

> "That's not why they buy [Paul Newman's] product. They buy the product because it tastes good, it costs the right amount and it's got Paul Newman's picture on it….So the success of that business model doesn't require, the motive, the philanthropic motivation of the consumer, or the employer, or the employee….The passage from the quotation here: "We don't sell, you know, products that are necessarily sustainable….But we sell what the customer wants to buy. And we try to encourage the customer to buy things that are more responsible….We are [a] customer-focused, highly productive, demanding sales culture."

GSB owners also understand that such a broad stakeholder view can often lead to conflicts. In their opinion, however, such conflicts can be resolved through transparency and discussions aimed at compromises that lead to win-win solutions. These solutions require that GSB's leadership sets broad strategic parameters, hires the most qualified people, ensure that there is accountability at all company levels, set sales and profit goals and engage the community at large in a relationship that benefits the business. In the words of the owner GSB seeks,

> "to build the idea of companies like [GSB]….Companies can be successful in a very competitive market place, satisfy customers and do [it in a way that] is wholly consistent with the broader interests of the community….So…B-Corp [is a] fourth type business sector….I am more interested now in gaining credibility for this business model."

These same views are expressed in GSB's mission statement and business goals as will be discussed in subsequent sections.

Although GSB is based on an unconventional business model, the purpose of the organization is well understood by top managers. They believe that the community and its employees are the firm's most important stakeholders, and actively seek to partner with them. A senior HR manager stressed the importance that GSB places on listening to the community,

> "One thing unique about Give Something Back is that it is sincere in being part of the community, as a business, as a partner. There's...the usual business world, such as sales and marketing and logistics and delivery. But we also put effort in partnering with community organizations, whether it's [a] city organization or nonprofit organization, and listening and doing what we can to ...be part of the solution to the community['s] problem[s]."

A senior employee commented on changes that have taken place in GSB's organizational culture over the past few years, and on the role of top management and owners in this transition,

> "It has changed. ...I'd say about the last 5 years [that] I really started to notice the difference. We started talking more about management not from top down, but from bottom up….[GSB] has always been very community and employee oriented, but less stakeholder oriented….[Now] it has become more stakeholder oriented….and this impetus came from the top or the management and the owners."

In the case of KAF, we again lack direct data from the company's original owners. In addition, it must also be understood that KAF to a certain extent differs from other companies in this study in its ownership structure. It is a 100 percent employee-owned organization. Nevertheless, a case can be made that the founding owners set the tone and culture of KAF. This can be established by looking at KAF's history. The company was basically recreated in the 1970s, when the owners sold off all of its assets

and started the business anew without any of its previous employees. The company began to grow and by the 1990s became a medium-size firm.

At this point the owners, who were set to retire, did not want to sell their company to proprietors who would disregard the firm's family-style culture. They therefore decided to make the company an employee-owned business. To this day that decision has dominated KAF's culture and is reflected in the importance of its employee-owners, who play a prominent role in its culture. But within the framework of KAF's Employee Stock Ownership Plan, top management remains important, as spoken to by a middle manager,

> "Everybody is contributing to it….Our CEO though, really is the strongest voice....He's just a huge supporter of the ESOPs and the ESOP structure, and he's a big player in that world, outside of King Arthur Flour."

One employee expressed similar sentiments,

> "It's very important that the actual leaders of our company, like the president of our company, believe in this model, this kind of culture that we want our employees to exist in here. But I don't think there's any one person, or even necessarily any defined group of people, that lead the culture. I think...it does start at the top, but it really trickles down to every level. And there are people all over the company who lead it, and that sometimes, they're surprising people."

Small-Sized Organizations

Among the smaller organizations of our study's sampling, the relationship between the owners' worldview and the organization's culture and policies is very direct. This is only natural since on this level owners have more control and personal contact with employees. The owners' and founders' prominence in their firms' cultures is further enhanced by their direct involvement in recruiting, training and assessing employees. A good example of this can be found in the transformation of Green Shirts.

After the North American Free Trade Act went into effect at the beginning of 1994, GS lost their major big-brand clients to cheaper producers in developing nations. This immense loss severely cut back Green Shirts' business, prompting the owners to basically recreate GS into a completely stakeholder-oriented business with the culture that prevails in it today.

According to one of GS's owners, he and his partner had always been socially responsible. When their business was rapidly growing in the late 1980s and early 90s, they were quite caught up in building it. But even then the owners did not become part of the showy new money of the 90s, in which many businessmen were fixated on fancier cars, houses, or bigger boats. The GS owners' focus on social responsibility made it easier for to transform GS.

This owner's sense of community was expressed in his description of who is a GS stakeholder,

> "It's our community, it's our customers, [and] it's our suppliers…you know it's everybody associated [with the company]…..This path as a more sustainable company has got us to understand the importance of connecting with our local community, so if anything we've really built up the stakeholders."

The owners have focused on the need for GS to generate new sustainable business practices and links with the community, to find different and more constructive ways of doing business. For example, GS had earlier primarily serviced big, brand-name clients who had no roots in the local community. Now GS not only sells its products locally, it buys its cotton from local suppliers as well. GS had not considered this during its earlier phase. The use of organic cotton by GS is another facet of its culture of social responsibility.

At GS stakeholder relations and sustainability come close to being religious

precepts. But the owners don't force their views upon employees, they only ask that their

employees understand the normative and instrumental value of such policies. As one of

the owners commented,

> "We're very transparent with our employees with what we do – we use our monthly meetings, we discuss different projects. I think employees, what they're finally realizing, is this path that we've taken is a harder path. But what it's done, it's really galvanized our relationship with our customers. And I think now these people are seeing [that] this path we're taking has given them assurance that they're going to have a job."

Thus GS owners understand that they are in a business and that they need to

remain in business. But they also see that while economic viability is essential, it needs to

be tempered with social awareness. As one owner affirmed,

> "I'm all in favor of capitalism, all in favor of global trade. But all those things cannot be solely run on a single bottom line. Because when you run on a single bottom line, you make short-term decisions, that impact a few, that help a few people, but can [negatively] impact a lot of people."

This brings us to the owners' concept of a triple bottom line – the "Three Ps" –

People, Profit, and Planet. GS owners believe that the role of their business is not just to

make money, but to keep all three of these equally important targets in sight. The owners

also have a strong belief in social justice, which they define as,

> "Looking at all the people that are affected by our business, from our employees, to our vendors, to our customers….It's a sound business strategy that you want to make a profit, but it's also just as viable that you don't want to take advantage of people."

The owners of GS understand that when one tries to balance so many interests, it

is more likely that conflicts of interests will arise. To help resolve such issues internally,

the owners have encouraged a more democratic workplace. With external stakeholders,

the owners believe that the best way to resolve conflicts is through finding a golden middle, by reconciling interests through discussion and consensus.

Such are the views of GS's owners. This brings us to a comparison with the views of its managers and other employees on the impact that the owners have had on the culture of the organization. One manager commented on how the owners have led the change in the culture of the firm,

> "The two owners definitely are the pioneers at GS. I mean what has been exciting is in the last couple years, as more and more of the managers have come on with this line of thinking. They find things themselves that can be improved, where we can do better. And that's exactly what we're looking for in our employee-stakeholder."

This manager went on to describe how employees have become more involved in the company's culture and thus imbued with its values,

> "It has a lot to do with both [owners]. I mean a lot of people have worked here for a long time and are relatively set in their ways....I think a lot of people hear the talk, and you know they hear my bosses, the two owners talking, and they think, you know that does sound cool....A perfect example,…they decided to stop using coffee cups. They asked employees to bring in coffee mugs, and they would give free coffee. And even to this day there's free coffee in our break area for all employees. They just have to use a washable coffee mug in order to get it."

A manager remarked on changes among employees prompted by the owners' efforts,

> "The ones who've been here for a long time understand it the best. When a new employee comes in, it might take a couple years. We try to once a month sort of get together in our break areas, a lot of times lunch will be on GS. We'll pay for lunch for everybody, and Eric and Tom will talk about, you know, the importance of what we're doing….why we think all of this is the way of the future.... that's a direct indoctrination, and I think people get it, they're both very good at articulating exactly why everything we do is important. And we think it's important that our employees think it's important. We try to impress that upon them without smothering them."

According to its owner, Untours was also created on the Paul Newman business model and is also on a B-Lab basis.

The owner believes in using business to bring about positive change, and has been involved in sustainable business practices for over 20 years. He created Untours on the basis of his personal values of serving the community. Initially, he did not even draw a salary, but in order to comply with tax regulations, he was eventually obliged to receive a nominal amount of pay. When asked when he initiated Untours' stakeholder culture, he replied,

> "I think we always were, just because of my personal values. Then I hired people who agreed with those values."

As already discussed in Chapter Six, the owner of Untours, like the owners and top leaders of previously discussed organizations, believes in developing long-term relations with stakeholders.

On a personal level the owner also believes in social justice, and towards that end, he has created a foundation which receives funding from the profits of Untours and donations from its customers. This foundation engages in providing small to medium loans to local businesses so as to stimulate local industry and jobs. He is also an avid supporter of free trade, and through his efforts, the town of Media, Pennsylvania, where Untours operates its North American office, has been named the first Fair Trade Town in the U.S.

Based on all the above, we can conclude that the owner of Untours has created an organization that is value-based, promotes trust, and has a stakeholder orientation to business.

Summary

In all organizations in the study the cultural tone has been set by their owners and leadership. In J&J's this process of initiation of culture has more than one part. First,

General Johnson initiated the Credo based culture in J&J through his writings and very explicit views and policies. At the second level, in the subsequent generations of managers the values were maintained first by recruiting and promoting managers to higher levels that fit the overall organizational culture. Then the selected new managers get special personal attention from senior management that trains them. Additionally, these managers are also assessed based on their understanding and application of Credo values. Finally, it becomes the job of the new managers to transmit J&J values to other managers and employees.

In the smaller organizations the process is almost similar except it is more personal as managers new or old have direct access to the owners.

Maintenance & Perpetuation of a Proactive Stakeholder Culture

The preceding two Sections of Chapter 7 covered two important aspects of stakeholder organizational culture. The First discussed the kind of culture that the organizations under review have and the Second Section explained how these cultures were created. We discussed the general worldviews of the owners and founders of the sample organizations and how they arrived at their concepts on the role of business in society. We also examined how these views led to establishment of stakeholder-oriented cultures in their organizations. We called this process the initiation phase of a stakeholder organization.

In the third section of Chapter 7 we intend to answer the question that once a stakeholder culture is instituted by the owner then how is it maintained and perpetuated (Box 7.3). Therefore, we will discuss the instruments and mechanisms of maintaining and perpetuating stakeholder culture in the studied organizations. We will discuss overall

organizational policies, HR policies and use of HR functions to help maintain a certain type of culture. This will allow us to examine artifacts, symbols and strategies that help introduce and educate employees in the practices of the organizations under review.

Johnson & Johnson

Mission Statement

In the case of J&J, its mission statement is its Credo. This Credo is one of the firm's main instruments for creating and sustaining its stakeholder culture. The Credo is also a direct representation of the early founders' views on business strategy and the place of business within society. In his book, *People Must Live and Work Together or Forfeit Freedom* (Doubleday: Garden City, N.Y., 1947), General Johnson spoke as a capitalist intent on reforming the capitalist system by making it more equitable. He argued that economic liberalism led to monopolies and the concentration of greater power in the hands of business. He advocated a system of checks and balances on the greed of capitalists, while at the same time maintaining living wages for their employees. This, he explained, would both create a strong middle class and would sustain the workers' human dignity. J&J's stakeholder culture has been shaped by the underlying views of its Credo.

The J&J Credo of General Johnson's day ranked three J&J stakeholders: customers, employees, and shareholders – all of whom needed to be catered to in order for the business to succeed.

Today, the Credo is J&J's main link to the views of its founders and it underpins J&J's proactive stakeholder profile. Since its elaboration over 60 years ago, the Credo has been updated in order to address changing times. The Credo now lists four

stakeholders: customers, employees, community and stockholders. It does not detail how

relationships with stakeholders are to be conducted; it merely sets out guiding principles.

This brings us to the first important question, to what extent is the J&J Credo

translated into corporate practices by J&J managers and employees?

Box 7.3

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Maintenance and Perpetuation of Organizational Culture
- **Mission Statement**
  "The credo clearly articulates a set of values and you recognize when you work here that these responsibilities that are outlined are very important"
  (J&J Senior Manager in Philanthropy)

  "Credo focus is good for long-term decisions"   **(Senior Manager in Sales)**

- **Cohesive and Mutually Supportive Instruments**

  "The Credo is very much understood when we are doing recruiting. There are references to the credo in our recruiting materials"   **(Senior J&J HR Manager)**

  "I think you are indoctrinated in [the Credo] by giving some of the history of J&J and how it was formulated. How the credo came to be – and yes, it is also told that this is the way we do business"   **(Senior TT Manager)**

  "It started with [the owners] – probably the best people I've known. And they hired good people like them. And now those good people are hiring good people. And you know, when we have a job fair, you don't just hire anyone that walks in the door. You see who's a good person – that's what you want, you want a good person, someone ethical"
  (KAF Manager)

- **Broader Organizational Policies**

- **Dual Pressure**
  "We do….the employees do….I think [the owners] have certainly set the tone, but I think it's certainly up to us individuals to keep it going"
  (**Dansko Employee**)

- *"Everybody…absolutely everybody….It is, I think, being part of this organization, is really again participating and being responsible for maintaining this culture"*
  (GSB Manager)

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From its perspective, like any other business, J&J seeks to produce high-quality products that best meet the needs of its customers. What distinguishes J&J, however, is that it strives to achieve this within the parameters of its Credo, which puts several other stakeholders ahead of stockholders. This centrally defines J&J as a stakeholder organization. J&J's Credo also guides the conduct of its managers in everyday affairs. For example, a senior manager in J&J's philanthropy department commented,

> "The credo clearly articulates a set of values and you recognize when you work here that these responsibilities that are outlined are very important. So, in my group the responsibility aligned to the third paragraph [of the Credo] says that we are responsible to the community in which we operate and the world community as well. It is translated to the work we do philanthropically."

Another senior HR manager expressed the importance of the Credo in this way,

> "The Credo... is an important document…It acts as a guiding principle…It reminds us where… stakeholders may fall [in] terms of priorities or importance."

A senior manager in the Sales Department of TT, a J&J subsidiary, observed that a "Credo focus is good for long-term decisions." Another manager noted that,

> "Some days [the Credo] is a conscious guide and probably other days it's an unconscious or pre-conscious [guide]. Its somewhere there, but at some point in my decision-making, yes, its prominent particularly in difficult situations, where we struggle for certain conclusions, we want to make sure that those conclusions are aligned with our values. So it is always present in our thinking, conscious or unconscious."

We thus see that the Credo is not only seen as a value statement but it is also consulted, followed, and used as a guiding principle by the managers in their decision-making

What happens, however, when a manager makes a decision that is not in accordance with the Credo's values? Instructive in this regard is an incident related to me

by a senior manager in the J&J Foundation,[41] who had stood up to a senior J&J executive over a decision she felt was not in keeping with the J&J Credo. As she explained, the Foundation had been distributing Resperol, a drug for schizophrenics, free of charge in the New Brunswick area of New Jersey. This practice had been challenged by a company president reponsible for the manufacture of this medication. He wanted to withdraw it from the Foundation's program becasue it was being distributed free of charge and a generic alternative was available to the community. This president felt that the company was not making any money on its distribution of Resperol to this region, and that the area had alternatives.

The J&J Foundation manager countered by explaining that since the drug was under a J&J patent, it was Foundation policy that such drugs are marketed in the U.S., even if generic varieties were available. She reminded the body considering this question that the foremost principle of J&J's Credo was to serve patients. She further explained that,

> "Patients were using these drugs becasue they could get it free through our foundation. Do you think that they will get a generic drug that… may be 10 percent or 15 percent less in cost? They will not be able to afford it. We made a commitment we need to keep."

In the end, the drug was not taken off the Foundation list and there was no retaliation against this manager.

Another senior manager elucidated the link between decision-making and the Credo,

> "So… many times in board meetings and in large team meetings the words that, 'this is not consistent with the Credo,' or, 'that is not consistent with the Credo,' are heard and spoken. So, it is really very much the part of the fabric of how you think about business."

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41 Janssen-Ortho Patient Assistance Foundation is now an independent entity involved exclusively with J&J philanthropic work. It was previously a department within J&J. It was in the earlier period that this incident took place.

It should be noted that the Credo is not only seen as valid for prosperous times, but in many cases managers also believe that it represents a much deeper philosophy that should lead J&J in the present times, when the economy is not in such a good state,

> "The credo was born out of a crisis and I don't think that a lot of people in J&J, a lot of young people, don't realize that...If people would understand that the crises in the young life of Robert Wood Johnson are not unlike the crisis that we are facing today....– if they had someone to explain to them that, 'we have been here before folks,'...(maybe the people who witnessed these events are not with us anymore, but the credo is a reminder of our history) – it was born out of a crises, it comes to our rescue in a crisis like this."

Cohesive & Mutually Supportive Instruments

Once an owner or founder has established a set of principles in the form of a mission statement, then the next step is to set up mechanisms and processes to enact them. These mutually supporting instruments are used to spread this culture to all parts of the organization in a consistent fashion.

In this section we will discuss the organizational functions of recruitment, training, assessment and advancement at J&J, and its link with its Credo values.

Generally speaking, the recruitment process at J&J does not differ from other companies. J&J seeks people who are experts in their fields, and who have optimal qualifications and experience. Here we are interested in the link between J&J's Credo values and its recruitment practices – do the former play a role in the latter? It is our belief that the process of creating a stakeholder culture should begin with the recruitment of an appropriate employee. In this regard we have seen evidence that managers engaged in hiring do consider qualities beyond required technical qualifications. They also seek those who they believe have a personal and organizational fit with J&J Credo values. One senior manager at TT explained,

"When I interview, it's almost entirely about personality and fit….you can't teach personality….I'll look at your CV and make sure that you have what I think is probably an appropriate pedigree, if you will, to exist within pharma[ceutics]…But the interview is almost entirely dedicated towards fit….We're looking for…somebody who's not self-promoting, somebody who isn't so terribly introverted that they can't work in a team, and somebody who looks at the inherent value of what the company is doing – not so much on their individual contribution that leads to those benefits – recognizing that the sum of those parts is bigger than the individual pieces [and] that you get more by working on something together. So it really is [a] personality thing that I have found to be very critical."

Another high-level manager expressed the importance of Credo values for

recruitment at J&J in these words,

"The Credo is very much understood when we are doing recruiting. There are references to the credo in our recruiting materials…So it [the Credo] is very much part of the conversation. If you are recruiting in the U.S., it is quite likely that the students will have done a case study around the Credo; we see a lot of that. So it can come into the conversation."

This practice of matching Credo-based values with other qualifications and skills

is also followed for hiring managers in J&J. A senior HR manager described how this

figured into her approach to this. An important tool for her recruitment procedure is the

Global Leadership Profile. This Profile sets out values that J&J looks for in managers.

This HR manager focuses on assessing a potential hire on leadership competencies and

behaviors and leaves the assessment of a candidate's functional and business abilities to

interviewers in the departments seeking the recruit. She explained the link between

leadership-related values and the J&J Credo,

"When I am interviewing,…I focus more on the leadership [qualities], which really kind of dovetail into the Credo-based behavior….So at the very…top [of the competencies are] Credo values….Integrity in Credo-based actions, and then we have…customer focus,…then we have strategic thinking, big picture orientation, intellectual curiosity and risk-taking…..On the talent-development side, we have organization, talent development, collaboration, teaming and self-awareness."

We will now briefly discuss how newly recruited or promoted employees and managers are taught the Credo and how to use it. An important role is played here by J&J's leadership, which takes the lead in explaining the finer points of applying the Credo in their own decision-making and how the Credo bears fruit for the company strategically.

An interesting two-way process of Credo-cultivation takes place on the J&J corporate ladder. As individual managers ascend it, they are assessed and instructed on the importance and utility of the Credo. Reciprocally, once they have been promoted and properly trained, these managers then spread Credo values throughout the company via a trickle-down effect. As already explained through the comments of a senior HR manager that once J&J managers are promoted to higher levels the J&J CEO himself spends time with them and discusses J&J Credo and expected commitment to it. The same HR Manager further adds that,

> "The way that you bring that credo to life, is you really do start with the senior leadership, and you make sure that there's a cascade down approach."

Beyond such dialogues and interactions with senior management, other instruments for keeping the managers updated on values are the Credo itself, surveys, and the focus of HR management on employee advocacy and workplace engagement.

There is also a sub-department within HR that assesses J&J's ability to live up to its Credo, and to assess this from a customer, employee and community stakeholder point of view. This department uses surveys at all levels and provides the managers with tools, processes and insights to improve Credo understanding. The head of this department also work with J&J leaders around the globe to reinforce the Credo via training, management

dialogue and so forth. A senior manager in this department related her experiences in this

regard,

> "I meet with the senior leaders, asking them how are they visibly living our Credo, and what are their commitments, and what are they holding their leaders accountable to….We provide the framework, the process, the tools, the insights,…have credo dialogues, where…. we'll almost tear apart each line of the Credo, and say, what are we living up to the values of the Credo? Is what the Credo is saying still relevant for us, and how do we need to change our behaviors?"

She explained how surveys help managers,

> "At the local level, [managers] are accountable for [survey results]. Understanding where they have gaps….You have to compare your score to some external norms, other norms within the company….What that leader should do is take the results to their team, share the results, gather a little more context, to understand really what were you thinking when you answered this question?….So if some of the [bad] scores are around employee-related issues, we will be able to tell them, these are the most important drivers of employee engagement that you need to focus on. So they can look at their scores, compared to the priority of those drivers, and put their focus there."

Such surveys are for mangers and those in higher positions at J&J. But new

recruits at lower levels are also initially trained in Credo values. A senior HR

professional described this,

> "We will have orientation trainings of new hires on helping them understand the philosophies and principles of our Credo…..I work with legal and other groups to develop case studies so individuals can understand how to make Credo-based decisions when they're provided with a challenging business situation."

Initial training also involves lessons in the history of the company and its values. A senior

TT manager gave an example of this,

> "I think you are indoctrinated in [the Credo] by giving some of the history of J&J and how it was formulated. How the credo came to be – and yes, it is also told that this is the way we do business."

Repetition is a key technique in training J&J employees and managers in the values of the Credo and in the creation of its culture. J&J representatives often stressed that the Credo is brought up in almost all company meetings. A senior J&J Philanthropy Department manager stated,

> "Once you are recruited, in your orientation there will be a look at the Credo and an explanation of the Credo. And then as soon as you start, you will very quickly be in some meeting or some conversation in where the Credo was there. And as you probably have noticed, it is in buildings, in all the buildings that you go to around the world. In corporate headquarters people have it here hanging in their office. It's in all of the publications for my group when a communication goes out to the employees about the work that we are doing philanthropically. We reference the Credo in that communication. Our chairman, when his communications go out, they reference the Credo. So, it really gets communicated through various levels of the organization and across many, many, many communication channels."

The next phase of recruitment and training that logically follows is that of assessment. Here we will concentrate on the link of managerial assessment to Credo values.

J&J and TT managers interviewed for this study stated emphatically that if a manager failed to perform their duties in accordance with Credo guidelines, then they could not advance or even survive at J&J. It was also repeatedly stated that rising up the corporate ladder at J&J required managers to adopt the Credo value system. If there were to be an exception, such an instance would be rare. As a senior manager in TT commented,

> "If you don't believe in it [Credo], I don't know what to tell you. You can probably survive depending on the job you are in, but in certain things where you are in decision making, I think you really better believe in [the Credo]….I think it [would be] difficult to survive [for a] long time in [this] organization."

Another senior HR manager contrasted the importance assigned to Credo value

adherence, as compared to business and technical performance in HR's assessment

process,

> "I think we can't have one at the expense of the other [business and Credo values]….I think that careers can be derailed if someone delivers on the business side, and yet they don't on the leadership side [Credo based leadership standards]."

A senior manager in the Foundation echoed this,

> "Those people who are brought into the company and do not embrace the Credo don't stay. They really don't and I've seen that repeatedly. And I believe that on most levels that's really very true."

The importance of Credo values in assessments is not just a personal preference

of individual managers and employees. It is a policy codified across the company in

leadership competencies profiles that focus on Credo values. A senior Philanthropy

Department manager explained,

> "We have a performance system that is based on what is called the global leadership profile and credo values are part of global leadership profile."

The leadership profile of competencies that is used in the recruitment of new managers is

also used to assess them on their business and leadership performance, and on their

adherence to the Credo. Such reviews are conducted annually.

Broader Organizational Policies

<u>General Policies</u>

In this section we will discuss broader policies and instruments at J&J that the

representatives of the company believe are used to create and sustain the overall

atmosphere of a stakeholder organizational culture in the company.

J&J says that it promotes a trusting environment between its corporate headquarters and its subsidiaries through a policy of decentralization. J&J does not have a strong corporate center that centralizes business planning. J&J has nearly 250 subsidiaries that are relatively independent and wield a relatively wide autonomy that allows them to structure and run their businesses.

At J&J there is a stated goal to develop lot of empowerment at the level of individual employees and managers. This means that at individual and subsidiary levels there is enough room to allow independent and aggressive entrepreneurial and business practices.

A question at this point is how does this relate to overall stakeholder culture and the Credo itself? The answer lies in the fact that J&J is a stakeholder organization and that its subsidiaries and employees are its internal stakeholders. Therefore, they are trusted and are given autonomy to decide their policies on their own – as long as they remain within the framework of the Credo. A senior government affair department manager gave an example of this,

> "We have about 250 subsidiaries that are fairly independent the way they structure their business. They are very entrepreneurial…..people [who] are empowered very early in their careers to be entrepreneurial….So there is a lot of you know very aggressive business practice. At the same time what links us together is our Credo. We are out there being entrepreneurial. We have to remind [ourselves] that we are bound to our common culture that is driven by the patients that use our products, the physicians that also use our products and our responsibility to the employees."

Another important general J&J stakeholder policy is its consensus-driven method of operation, which has been discussed as one of the features of proactive stakeholder organizations in Chapter 6. This extends to business and philanthropic partners, as well as

to internal stakeholders. Throughout, the aim is to achieve consensus through discussion in order to arrive at win-win solutions.

Finally, there is the ultimate test of how layoffs are handled in a proactively stakeholder organization. In Chapter 6, we have discussed in detail the process of layoffs and what the J&J employees think of it. Suffice to say that it was evident from our discussion that employees understand why layoffs were done; they see that these decisions are justified in the present economic conditions, and most importantly, they feel that qualitatively the laying off procedure adopted by J&J treats the employees with dignity and respect.

Eliciting Stakeholder Opinion

A key ingredient of J&J's consensus approach to stakeholder management is eliciting stakeholder opinions on the company's Credo performance.

Employees are the second most important stakeholder in the J&J Credo, so their involvement and opinions are important. As discussed earlier, J&J employees can raise objections with senior managers if they believe that the Credo is not being followed.

J&J's HR Department, as discussed in Chapter 6, also conducts a Credo Dialogue with employees and this helps the update of the Credo when needed.

J&J also conducts an employee survey to solicit employee opinions about managers, sections, departments and the company as a whole, with respect to compliance with Credo principles. The following information on the survey is based on interviews with two senior HR managers who were closely involved in conducting it.

This survey was conducted globally among all of J&J's 100,000-plus employees. The response rate was 90 percent. This canvassing has taken place bi-annually for close

to 25 years. While individual responses are protected by confidentiality, the results are tabulated by employee functions, geography, and departments.

This survey is a key tool to help management gauge employees' thoughts and to initiate discussions on the opportunities for improvement and other concerns. As one manager related,

> "It does allow…a diagnosis deep into the organization to understand where's the pockets of excellence, where are the pockets where further management effort is required."

This polling is conducted by a third party consultant that also provides the survey. This helps ensure the kind of confidentiality necessary for the survey. This research group has created an "advantage framework" based upon research done by *Harvard Business Review*, as well as its own internal studies. This advantage framework identifies thirteen key areas of strength that a high performance organization needs to focus on.

A senior J&J HR manager explained that this survey was just redesigned for the first time in 25 years. This was done to give the survey a more holistic approach – that is, to have it better cover "employee…..satisfaction and engagement." One the manager involved in the survey described its aims,

> "We do a Credo survey…it's a global survey, that is…one of the vehicles that we use to collect employee feedback….So [the employees] have the opportunity to comment from the supervisor level, up to their management, and then above. So that's our test, to see how employees feel….There's different levels of questions. Some of the questions are [to] rate your supervisor, rate your management, rate your company, or your business and rate Johnson and Johnson as an enterprise – all the way down to before it's broken into the four sections, stakeholders, the four different stakeholders……So you have a baseline….And you can see the progress [every two years]."

J&J also elicits opinions from its customers on company performance. This is also done through a survey. Corporate leaders identify key customers who then receive a

customized online survey. These focus on how J&J as a corporation has catered to a

customer's current needs and how it can improve in the future. The survey also asks how

J&J has helped these customers improve their businesses. An HR manager involved in

the customer survey described this process,

> "We do [have] a voice, a customer process….We do face-to-face
> interviews...and then we do an online survey, where we ask the business
> partners [customers] that the functions [particular business sections] here
> identif[ied] [in the survey] provide input on the services that they deliver, how
> well they're delivering them… how effective are they, [and] how efficient are
> they? Are they adding value to the businesses? So that's the way we collect
> feedback for the corporate functions on how we're with the [business]
> stakeholders."

Dual Pressure

A number of the interviews conducted with J&J representatives for this study

shed light on how the company has managed to sustain its Credo-based culture for over

60 years. A senior Philanthropy Department manager answered,

> "I think it is perpetuated in different ways. It is perpetuated when we
> occasionally get the push through email that reminds us of a particular
> anniversary. We are surveyed about our points of view about how we are doing
> as a company….We benchmark ourselves with these surveys."

A senior HR manager described the trickle-down effect of Credo values,

> "I meet with the senior leaders, asking them how they are visibly living our
> Credo, and what are their commitments, and what are they holding their leaders
> accountable to….The way that you bring that Credo to life, is you really do start
> with the senior leadership, and you make sure that there's a cascade down
> approach."

Another manager added another aspect of the role of the leadership in this process,

> "Actually this is a very interesting point. What I have seen is that the leadership
> within this organization takes it very seriously….When they step down or they
> leave, they spent a lot of time educating and providing information to the new
> leadership about what is important and what success looks like as far as the
> culture, and not to lose sight of it. So it is kind of like generational, where when

one generation of leaders steps down, or is no longer there, the new leadership kind of goes through this learning process with the elders, if you will."

The understanding that top leadership plays the dominant role in perpetuating J&J culture reinforces what we have discussed in previous sections: the early owners created a value-based business and elucidated a Credo upon which recruitment, training, assessment and promotion was then based. Assessment of the leadership's fidelity to the Credo assures that J&J values cascade from the top to the bottom of the company, and from one generation of leaders to the next.

While it makes sense that top leadership plays the leading role in creating and perpetuating J&J Credo-based values, the company's policies of employee involvement and autonomy at various levels also promote points of support for defending – and even redefining – Credo values at lower levels of J&J.

The way this works is that employees who were recruited on the basis of affinity to Credo values, and who were trained to treat these values as their own, were also given J&J forums from which they could point out to their superiors, without the fear of retaliation, that decisions taken by the latter were not in accordance with the Credo. There is thus a tendency for employees and managers at lower levels to not only own the Credo values, but to appoint themselves as protectors of the J&J constitution.

There is little direct evidence of the above conclusion in the form of interview quotations. Rather, the recognition of upward pressure from within J&J to uphold the Credo is mostly based on this analyst's interpretation of data. Following the logic given in the previous paragraph, J&J has created a value-based organization. These values have become a part of J&J culture. This value based culture is maintained and perpetuated by recruiting the right type of employees and managers and assessing and promoting the

managers based on the Credo values. What this strategy does is that it recruits and retains employees and managers that feel affinity with the J&J Credo values. These employees identify with J&J values, they feel pride in them, and they profess loyalty to J&J and to its Credo. Based on the close identification with the values they want to preserve them as well.

As pointed out there is little direct evidence of the above conclusion and most managers and employees could not point it out. The reason for this could be that individual and fragmented vantage points of managers and employees do not afford the overview that an analyst has in assessing broader data that supports such conclusions. Nonetheless, as indirect evidence there are a number of occasions when employees and lower level managers pointed out that they can point out to their superiors, without fear of any retaliation, any decision that go against the Credo.

As further evidence, some managers did express views that also give indirect support to the above conclusion. For instance, one senior manager stated,

> "I think the interesting thing about the way you said that the top management wants is that it doesn't feel that way. They obviously do, but it feels like that that's who we are and everyone has responsibility to have us live up to who we are. So as I came into the organization and moved up in the organization I never thought there was a different way. This is who we are and the Credo is over 60 years old. So it is part of how we have done business and certainly senior leadership reinforces that. But I feel it's more that we all want it and they want and that they make it happen."

However, there is one incident that was recounted by a J&J manager that gives direct evidence as well. We have discussed this incident in this chapter in our section where we talk about the importance of the J&J Credo and how it is followed by J&J managers. In this incident a J&J Foundation manager criticized a decision taken by a President of one of J&J subsidiaries. The subsidiary wanted to take Resperol, a drug for

schizophrenics, off the list of free drugs donated by J&J Foundation in New Jersey. She opposed this decision on the basis that it was against J&J's Credo, which claims patients as the top priority. The decision was reversed and there was no retaliation against the manager.

Medium Sized Firm

Mission Statement

In all medium sized firms there are value statements that are codified in employee handbooks, annual reports, etc. Values statements also sometimes appear on company websites. In this section we will examine to what extent such value statements reflect the views of the owners and founders of these companies. In sections that follow we will further discuss how these value statements, and owner/founder views, translate into policies and instruments for the maintenance and perpetuation of a company culture imbued with these values.

In the case of Dansko we have already discussed the fact that even in the absence of documentation of original owners' values and worldview, we can reasonably establish what those owners thought, based on a letter to the employees published in the company's 2008 annual report. In there, the earlier owner spoke of five characteristics that defined Dansko: 1) maintaining a brand (having a customer-centered approach to business); 2) maintaining a business (maintaining long-term business viability by keeping to debt-free growth); 3) investing in people (orienting to employees); 4) giving back to the community (placing community service at the center of the business); 5) saving the planet (reduce Dansko's ecological footprint).

Today these views are reflected in Dansko's Corporate Social Responsibility (CSR) statement, and in a value statement in the *Dansko Employee Handbook*. Dansko's CSR statement gives a broad definition of company values, one that is close to Carroll's (1991) pyramidal view that lays down organizational responsibilities in the order of importance starting with business and legal to ethical and philanthropic. Dansko's CSR Statement puts "people and community right up there with the bottom line." It adds that Dansko is a founding member of B-Corporation, which is an NGO dedicated to giving voice to like-minded businesses that care about their employees, community and environment. This statement concludes with stakeholder values such as: taking care of the employees, suppliers, community, the environment and of building up a collective voice for good companies. The core value in this statement focuses on employees and team work: integrative decision-making; personal growth; creative thinking; realizing potential, and developing all employees.

These are not just lofty ideals, but part and parcel of Dansko's culture. As one senior manager put it,

> "We have that mission statement...it is embedded in a culture rather than having a slogan….It's absolutely part of the culture. Its formal, the fact that we're a B corporation. We remind ourselves of that from time to time….I think it is always there in the background."

King Arthur Flour (KAF), is also a stakeholder organization. In an earlier section of this chapter we discussed the views of its owners. According to KAF's employee handbook, it intends to develop long-term partnerships with customers, vendors and employees. It promotes high levels of ethics, integrity, and produces a high-quality product.

KAF is a firm believer in employee ownership (the only company in our study which is 100 percent employee-owned). KAF strives to maintain its brand quality and to serve its community. It also educates people in the art of baking and thereby improves their living standards. This last measure serves both ethical and business goals.

Give Something Back (GSB) is also a middle sized stakeholder organization. As stated earlier in this study, GSB's owners envisioned an organization that served the local community. A major percentage of its profits are also donated to NGOs across the U.S.

GSB offers a different model because it is both competitive and philanthropic. GSB's culture has recently become more stakeholders oriented. Still, a difference remains between how the owners, on one side, and the middle managers and employees, on the other, view the organization's purpose. The owners focus on serving the community. But for most managers and employees, being a competitive business is more important.

The views of GSB's owner-founder are reflected in the company's value statement. This is[42] divided into two sections – one on purpose and the other on values.

The values section lists: serve the customer; give to the community; grow employee potential; and inspire others to give. The purpose section lists: integrity and honesty; teamwork and collaboration: understanding and accepting diversity; passion for work; and environmental stewardship.

Cohesive & Mutually Supportive Instruments

In medium sized firms, we also find mutually supportive systems for the maintenance of their stakeholder culture. These are not as clearly defined as those in J&J, but as we will see, they were nevertheless elaborated through a conscious policy.

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42 https://www.givesomethingback.com/company (March 4th, 2011)

Dansko's recruitment aims at hiring people with qualities that fit into the culture and values of the organization. A senior Dansko HR manager explained this method,

> "When I am looking to hire folks, one of the things we talk about and think about is…how this person is going to fit with the team. How is this person going to… work well with others.…Generally speaking, there is an air of good will to this place. And I think that a lot of that has to do with the people here."

He added that,

> "Culturally, this isn't going to work for everybody…. Part of the process [recruitment] when you bring folks in, you're going to find out, hey, are you going to be a stakeholder? Do you want to be a stakeholder in this? I think, In my opinion, folks aren't going to be able to be happy here if [stakeholder values are] not part of their makeup."

A successful person to organization fit is also important at KAF. A senior HR manger commented on how the organizational culture is maintained there,

> "I think it starts in our hiring practices, that we make sure we hire someone that's going to thrive in that environment.…Someone who's really comfortable in a thriving, changing, nimble environment."

Another middle-level manager in KAF media relations described how culture figures in their recruitment process,

> "It started with [the owners] – probably the best people I've known. And they hired good people like them. And now those good people are hiring good people. And you know, when we have a job fair, you don't just hire anyone that walks in the door. You see who's a good person – that's what you want, you want a good person, someone ethical."

It is the same at GSB – a good person to organization fit is essential, even though GSB's work requires a greater emphasis on technical skills. One owner explained what is sought in a prospective hire,

> "We are looking for their technical or job-related qualifications. Well, we compete for customers.…So our employees have to be equal to, or better, than our competitors' employees.…In order to get the best employees, we expect the

employees…to be able to fit into our organization…. Though…we don't expect our sales people to be committed necessarily to our community goals."

A GSB senior customer relations manager explained what this meant,

"Well you [are] looking for a skilled person…depending on what position you are recruiting for. You want to have that basic skill set of course…. I've personally not interviewed and included any questions about have you volunteered…. [Views or values about serving the community are] not a requirement to join the organization. I think you are just looking for the basic skills."

That being said, the values of the owner-founders, their mission statements, and they way GSB donates its profits, all these have an effect on the organization's culture, and recruitment is a part of that. As a middle-level GSB manager in customer relations put it,

"There is…that common thread that attracts people…I believe it probably attracts a different type of person when they read our job description….Some of our job descriptions actually have a bit of our [philanthropic values] in them. So it probably does attract a little bit of a different person….A lot of people will look up a business and a lot of people will come in prepared saying, 'Oh I saw that you did this. You helped me understand how you guys [do] not charge more [while] giving your money away."

One GSB employee interviewed for this study pointed to her own recruitment as an illustration of this,

"I was working at another company, and one of the salespeople here came to the office and he was telling me…about what Give Something Back does. And when I found out about it, I got so excited about it, I thought – wow, this is something that I need to get along on the program, get in there some way. And at the time they had the position open of front desk. And I really liked what the company stood for. What made me stay is that they really do live what they preach."

The next step after recruiting the people with well-attuned personalities is to train them. And here again, GSB training is not so much aimed at job-related skills as in inculcating organizational values. In contrast to larger companies, the three medium-size

organizations of our study lack special structures to transfer their cultural values. This therefore takes place in a more informal manner. This does not mean that the transfer of culture is absent or deemed unimportant. It merely signifies that smaller companies do not require elaborate structures for this purpose. Much can be done informally. A GSB top manager described how its culture was initially instituted by the owner and then spread throughout the organization,

> "This [culture transfer] starts out first with the management team. So I suppose he [the owner] found a management team that truly believes in the social mission of giving back….Then I think you can disperse that into a working culture, of promoting giving back. And I think with that kind of culture in place, it encourages people to really take the serious notion of giving back to the community."

Another senior manager in GSB's finance department also commented on the informal nature of cultural transfer in the organization,

> "Over time you can't help but learn what philanthropy is about, and what our company is about – why we're here and why it got started. Something that we spent a lot of time on last year was our purpose and values statement….I believe that through various meetings that we have, including our biannual town hall meetings, that philanthropy is talked about a lot, and our mission statement is talked about a lot. So you do learn through that, and through the example of …our two owners, as well as all the managers here, what philanthropy is about. So there is no formal training, but you do learn it along the way, if you don't know it already by the time you start here."

As with larger organizations such as J&J, medium sized also employ the technique of conducting repeated discussions around values. A GSB middle manager explained that,

> "[Cultural values are] something in the verbiage of what we talk about. It's a recurring theme in our meetings and our town halls….We keep it in front of our mind and it is not something writable, but it is something to discuss to make sure."

Medium sized firms, as a rule, also lack formal structures and standards for cultural assessment of employees and managers. Where such structures do exist, they tend to be less developed than in larger organizations. But such closer contact inherent to middle-size companies often means that those who do not fit into a firm's culture do not remain long. A manager in GSB attested to the above and remarked that managers who have survived in the organization for an extended period, cannot but have absorbed its culture or core values. He explained that this was not the result of formal requirements:

> There is a section within our review process….and there is some [wording] in there… it alludes to company philosophy. You know, does this person understand the company philosophy…do they believe it... It's not an area that is graded, but it's important to cover and think, are you aware…of the company's philosophy?"

Broader Organizational Policies

<u>General Policies</u>

Apart from the mutually supportive systems discussed above, there also are a number of other policies that medium sized firms follow in order to promote and sustain their respective stakeholder cultures. The following observations are based on site visits, during which interviews were conducted.

At KAF a policy that is immediately evident is its complete transparency with regards to financial performance, right down to providing hard figures. Charts indicating economic performance are posted in open company spaces. KAF also practices what is called "open book accounting,"

> "Anyone in the company has the right…to ask any questions that they want, and the only information that we truly hold confidential from the employees is the individual payrolls….They see financial reports every month… there isn't anything that anyone can't see, or can't ask a question on."

Such transparency is not limited to KAF though it is more prevalent in KAF as KAF is a 100 percent employee owned and financial information needs to available to KAF employee-owners as a right. Other middle-size companies also share financial information with their employees. Dansko that is less than five percent employee owned nevertheless provides complete financial information to its workforce. At GSB, such information is not only shared but, as discussed in Chapter 6, is voted on by employees (at least with respect to decisions on donations and profit retention).

The same transparency is seen in the process of layoffs in all mid-sized firms. As discussed in Chapter 6, layoffs were done only as the last resort and the employees who were laid off were given good severance packages and were treated with respect and dignity.

In addition to the above, the stakeholder culture of these organizations is also sustained by an informal, family atmosphere in which managers and owners are accessible to employees. This collective feeling extends to the communities in which these organizations operate, via philanthropy and NGO community service for which employees are paid.

Eliciting Stakeholder Opinion

For medium sized firms, eliciting stakeholder opinion comes down to gathering information on their internal stakeholders, that is, their employees. This has two aspects. One aspect involves extending decision-making to employees at various levels. The second aspect involves canvassing employees on how they view the firm and management. These two aspects go hand in hand. These organizations believe that employees, as important stakeholders, need to have clear channels of communication.

This allows for employees own concerns to be better understood and addressed. At the same time, their valuable insights can help the firm in making self-assessments. A senior KAF HR professional described her role as a "keeper of kingdom's soul." By this she meant that she stayed aware of employees' thoughts about the firm and its values. To help in this, KAF conducts an exercise in which employees help to draw up a value statement for the firm, as was discussed in Chapter 6. Notably, an analogous exercise was also carried out at GSB.

Dansko applied such an exercise to a specific challenge that the company faced. As it expanded into a new, environmentally friendly building, the firm's leadership wanted the employees' thoughts about the company and its management. This was achieved by conducting a survey that helped open lines of communication and clarified management's perception of employees' views.

Dual Pressure

We thus find an atmosphere in medium sized firms wherein employees and management shares the company's values and view each other as essential to maintaining their organization's culture. The following comments illustrate this. A Dansko senior manager stated that,

> "I think once, you kind of set up the process yourself, the culture, then it is the employees who help perpetuate it and help expand it."

When asked who maintains the culture at Dansko an employee replied,

> "We do….the employees do….I think [the owners] have certainly set the tone, but I think it's certainly up to us individuals to keep it going."

A Dansko HR manager remarked,

"I have said that I think we are all responsible for the culture….and I think that it started…from the owners…They've set a precedent and people have started out here and they realized that [the culture] is something special, this is something great."

Another GSB manager was asked who maintains the company's culture,

"Everybody…absolutely everybody….It is, I think, being part of this organization, is really again participating and being responsible for maintaining this culture."

A KAF middle manager remarked on who perpetuates its culture,

"I feel like in some ways we are all responsible for leading and perpetuating this culture….I think it's very important that the actual leaders of our company, like the president of our company, behave in this model….But I don't think there's any one person, or even necessarily any defined group of people, that lead the culture. I think it…does start at the top, but it really trickles down to every level, and there are people all over the company who lead it."

Level of Sophistication

As noted previously, medium sized firms do not have structures and procedures for cultivating stakeholder cultures as developed as those at larger firms such as J&J. And as we have also touched upon, this is not because smaller firms value such culture any less. Rather, their size allows them to promote such without sophisticated structures.

Although KAF dates back almost 200 years, it virtually began anew in the 1970s. Since then it has grown, but is still not at a level where it needs highly-defined instruments to maintain its culture. Inter-personal contact within this organization is still sufficiently personal that almost everybody knows everyone else. Its culture is therefore maintained mostly through informal channels. But as a sign of the future, KAF recently conducted a survey as a means to refine its mission statement. Everybody at KAF knew its values, but they were not written down. So as KAF grew, it has become necessary to

develop more sophisticated structures to pass along its culture. This was articulated by a senior manager,

> "There's a lot of change, it's constant….We're kind of still figuring out the best way to do things. We don't have a formula that is set in stone. We're constantly adapting. We're trying new things, as business grows, we go on to more geographies. We go on to more product lines. We're adding new people, doing new things and we realize that our needs for analysis and data have grown. And so, we, you know, our IT department, has grown and now we have analysts and marketing, you know. So we've added people in roles that we didn't need when we were a tiny company. …We're spending $100,000 each year outsourc[ing] that function. Should we just have a person in-house doing that? So, we're constantly looking at the needs of the business."

The same process is taking place at Dansko. They too recently developed their mission statement and developed structures allowing them to conduct surveys on employees' feelings about their company. A Dansko manager added that company growth had made it necessary to articulate a mission statement so that everyone in the organization could act in unison.

As for GSB, it also recently developed a mission statement. This can be found on its website, which in the last year or so since this present study was begun, has vastly expanded to carry a great deal more information.

In summary, as these middle-size firms grew, they adopted more sophisticated structures to maintain the culture they were earlier able to promote via more informal channels.

Small-Sized Organizations

Mission Statement

At Untours there is a clear relationship between the views of the owner, the values in its mission statement and revised charter, and the company's stakeholder strategy. Untours revised its charter in order to comply with B-Corporation status. This new

charter affirms that the Director of the company shall, in the course of discharging his or her duties, consider the broader interests of its shareholders, employees, customers, suppliers and the community in which Untours operates. The charter's clear cut stakeholder orientation can also be ascertained from the following quote from the current director of the company,

> "We had amended our charter since we joined B-Lab…It was simply an amendment, that… allowed us to include the broader community….as well as other stakeholders."

Untours' stakeholder views are also defined in its mission statement, which lists its goals by stakeholder groups: customers (provide best service at reasonable prices); employees (offer above-average pay and benefits, involve employees in developing the company's personality, practice non-discrimination, reduce divergence between highest- and lowest-paid employees); suppliers and business partners (seek out those with similar values, and promote cultural diversity); community (be a good neighbor, work for environmental sustainability); social justice (apply business profits to the promotion of economic and social justice).

The charter of Green Shirts (GS) was not available for this study, but as it is a B-Corporation, it can be accepted that its charter voices the interests of stakeholders (as in case of Untours). And while GS does not post a mission statement on its website, its main values are expressed their online. Specifically, GS owner-founders state their commitment to sustainability, the triple-bottom-line business model, promoting local cotton, and practicing transparency in the operations of the company.

Cohesive Mutually Supportive Instruments

As with larger organizations, smaller companies also consider the perpetuation of their culture when engaging in hiring. They too look beyond job requirements and seek cultural affinity on the part of prospective employees. At GS this was illustrated through an example related by one of its owners,

> "We went from a reactive to a proactive sales approach. Now we want to get more out there, talking to our customers….So when I went out and [began] looking for a new salesperson, what I was looking [for was]basic sales, you know, how to manage a sales database, how to engage with customers, how to identify needs. I needed that, but my top criteria[criterium] was looking for somebody that had some connection towards sustainability. It either could be in their career, it could be in their life, in their education, but I was not going to hire somebody that, say, had 20 years of apparel experience, had all the contacts in the world, but had no understanding of sustainability."

A top GS manager also described how he matched values in the hiring process,

> "So when we go out and bring a new employee, you know, in for interviews, we first of all walk them around the property and tell them what we think is important to us. And we should them our solar arrays, and our bio-diesel, and our natural landscaping, and our process that we do, and why we do it differently, and why we think that's important to do. [It is] for some inherent values, but it's also important to our customers, that we do these things. So what we do is we want to be sure that they're compatible with these thoughts, you know, that they understand why, as a company, we're choosing this course of action."

In Untours a similar strategy is used, where job requirements are important, but at the same time, a value match is just as valued. As one employee remarked,

> "We tend to attract people who are interested in the same kind of things that we interested in."

The director of Untours added,

> "One of the questions that I ask all the people coming in is, 'who in your life has had the most influence on your values?' And it's a question that…gets to…what are your values."

As might be expected, training in these smaller firms is rather informal. Since newly hired people already share similar values, training is easier. But at both GS and Untours cultural assimilation is a subtle process and not forced upon employees. The director of Untours explained the community aspect of this,

> "The sense of community is something that people get as soon as they come [on board], 'Okay, now I'm part of this community, I need to treat people respectfully. They're treating me with respect and, if there's a problem, [management is] there to help us work it through and there is going to be support if there is an issue.' So people get that, I think really quickly, without any explicit training."

A GS owner reflected on his company's training process,

> "Well it's hard, because you don't want to push too hard. The ones who've been here for a long time understand [the culture and values of the firm] the best....When a new employee comes in....we try to, once a month, sort of get together in our break areas, a lot of times....we'll pay for lunch for everybody, and [the owners] will talk about, you know, the importance of what we're doing, why we think all of this is the way of the future. And that's a direct indoctrination....We try to impress that upon them without smothering them."

Without introducing evidence in terms of advancement or gain, it can nevertheless be reasonably inferred that in smaller organizations (i.e., those with less than 25 employees), where people work in close quarters with managers and fellow employees, it is generally more important that people either share basic values or come around to those of the majority.

Finally, as discussed in Chapter 6, the small-sized firms also pass the final test of being a proactive stakeholder firm—i.e. layoffs. Under economic pressures layoffs were done in the small-sized firms but the laid off employees were treated well and with respect.

Broader Organizational Policies

Similar to other organizations, stakeholder culture in smaller firms is sustained by the overall outlook of these firms. The values of its owner-founders also play an important role in this. The overall emphasis that these firms place on openness, informality, a family feeling, a collective outlook and a long-term orientation to the business all figure prominently.

In the smaller setting of companies like GS and Untours the importance of an employee's voice looms larger. We have discussed how employees in smaller organizations find a voice through teams and committees. We likewise discussed how the decision-making process at GS is very transparent and that employees were even involved in the process of lay-offs. The same is true for Untours, where employees have autonomy and a voice as internal stakeholders. All these features help create and maintain a stakeholder culture.

Level of Sophistication

Smaller businesses do not require as elaborately developed mechanisms and processes for their everyday operations as larger firms. In most cases smaller companies use instruments that are more informal. In this setting, it is only natural that the perpetuation of a company culture is also carried out along more personal lines. In other words, since the upward pressures exerted by employees in small organizations find fewer official channels, this pressure comes through via more subtle and sophisticated openings.

Employees in these smaller organizations are perhaps closer to their managers in terms of values than their counterparts in larger organizations (especially in a multi-national such as J&J). But our examination of upward pressures that employees bring to

bear in challenging management and owners over decisions that employees believe to be at odds with their organization's values has yielded almost no evidence of established means for this. However, what we do find is a lot of input voiced by employees, which in some cases may serve as a proxy for officially organized upward pressures.

Box 7.4

Level of Sophistication

"There's a lot of change, it's constant….We're kind of still figuring out the best way to do things. We don't have a formula that is set in stone. We're constantly adapting"

(KAF Senior Manager)

Summary

In the previous two sections we established cultural features of stakeholder organizations and we discussed how culture is initiated by the owners and top management in these firms. In the current section our concern turns to the maintenance and continuity of culture. The main theme that has been followed in this section is that all artifacts, policies, and instruments that are used to create a specific organizational culture are interlinked, the most important being, in our case, the worldview of the owners and top management. Every subsequent policy and instrument is linked with this core.

In J&J, General Johnson gave his views in the 1930s and 40s and based on those views he established a Credo. One important question that we tried to answer in this section is that how far the Credo actually gets translated in corporate action. We discussed and established that the Credo is not just a lofty ideal it is actually a conscious and sometimes an unconscious guide for the top management. The evidence from all levels of employees and management in J&J shows from the J&J perspective that the

Credo is seen as a living document, which is not only consciously followed but has also been updated with the changes in the business environment. The Credo is understood as a guide not only in good times but it is seen as a vital source of inspiration in recent times of economic decline.

Another important aspect that further strengthens links corporate actions with the Credo values is that managers and in some cases senior management can be challenged, by subordinates, if their actions do not conform to the Credo values.

We also discussed that in order to create a specific stakeholder culture J&J has instituted a number of mutually supportive policies and HR practices. Starting with the recruitment function to the assessment and training of employees to Credo based surveys to assess and guide managers all tools have the Credo values as their nucleus. All other supporting policies of: transparency, autonomy, consensus based decision-making, eliciting opinions of external and internal stakeholders, and promotion of win-win solutions create a comprehensive and all pervasive stakeholder culture in J&J.

In the medium sized firms and the small firms in the sample also have the same pattern as J&. The core of these organizations is also the views and values of their owners. These views are then enumerated in value or mission statements. Then every policy and HR tool is linked with their respective mission statements.

One difference that the smaller firms have with J&J is the level of sophistication of tools. The principles behind all of the policies are similar but as these firms are small in most cases the instruments used to develop specific cultures are not as developed. But a pertinent fact here is that as these firms are getting bigger, especially in the of the medium sized firm, they are developing elaborate instruments as we saw n case of some

of them that they have had recent surveys to involve employees and develop well articulated mission statements.

One similarity in all of the organizations has been the presence of dual pressure of maintaining the organizational culture. All of the elements that have been discussed earlier create a certain type of culture in the organizations. Not only that but employee are recruited, trained, and assessed through standards based on organizational values. Once these employees have been inculcated in the organizational culture with the added ingredients of critiquing the management with impunity, and identifying with the values of the firm, makes employees self appointed guardians of organizational values. Therefore, the organizational culture is maintained and perpetuated not just by the downward pressure created by the management but also by an upward pressure on management by the employees.

Finally, our findings in this section and in the previous section—i.e. initiation of culture- support earlier works on the effects of organizational founder's model on organizational development and the bases for specific founder models. Baron, Hannan, & Burton (1999) found that the initial founder's models leave an indelible impact on the subsequent development of organizational structures. Additionally, researchers have found that founder's initial organizational models are based on a number of factors including: proposed business strategy, and importance and influence of external actors (Baron, Burton, & Hannan, 1999). We have found that the initial organizational cultures set by the founders have a deep-seated affect on the subsequent development of organizational culture and structures. Furthermore, the leadership initial models are based

on their specific worldviews and their ideas about business and role of business in society fashioned by specific business conditions and needs.

Attitudinal changes required for a Proactive Stakeholder Organization

Maintenance and perpetuation of a proactive stakeholder culture is very cumbersome. It starts with a definite value statement that is created and emphasized by the early owners and the top management. Then an intricate edifice is erected around the organizational credo to maintain a specific proactive stakeholder behavior in employees and managers. This behavior is maintained through a complicated but mutually supportive policies and structures. In essence a proactive stakeholder organization is difficult to create and maintain. The question is that does creating a proactive stakeholder organization require major attitudinal changes in organizations and managers? In this section we will try to answer this question.

We argue that stakeholder management of an organization requires major attitudinal, structural, and procedural developments. The first and foremost is a constant surveillance of the environment. This requires monitoring existing stakeholders and scanning for new ones. Existing stakeholders must be recognized and their needs must be met. But scanning for potential stakeholders is even more demanding. Here stakeholder management presumes an ability to predict and intersect the development of future stakeholders. What is more important is that management in a proactive stakeholder attitude takes a systemic view of organizational survival, which means that the organization is part of a bigger system—i.e. the community—with several other actors and these actors affect the firm and its performance.

Once these stakeholders are recognized, the next, and perhaps most difficult stage is the development of structures and processes within the organization and with the stakeholder, in order to effectively communicate with them. Communication is the way to keep an organizational finger on the stakeholders' pulse. We discussed, earlier in this chapter, the way most of the organizations have surveys for their employees in which the employees assess the performance of the organization and the management. Therefore, communication is a two way process in which organizations can apprise stakeholders of a realistic assessment of organizational limitations and issues. On the other hand, it also an instrument of criticism and eventually improvement as stakeholders critique the organization on its performance as in the case of employee surveys. Finally, communication is also a source of flexible organizational strategy, an aspect that will be discussed later in the chapter.

Box 7.5

<u>Attitudinal changes required to establish a Proactive Stakeholder Organization</u>

- **Taking a systemic view of organizational survival**

- **Understanding the concept of a 'dialogue'**

- **Learning to share power**

- **Developing comfort with change and flexibility**

- **Understanding the concept of "Double-Loop Learning"**

An important requirement of communication is that it should be a dialogue. Stakeholder theory essentially aims at creating balance between different interests. For

broader stability there is a need to develop a dialogue between the stakeholders that should be base on trust and lead to the recognition of shared objectives (Heckscher *et al*, 2003). What is a dialogue? A dialogue is a communication in which the stakeholders are involved at different levels of the decision-making process. Of course, the topics for dialogue should include areas of mutual concern. All firms in our sample group have one or another structure at various levels for that allow stakeholders to participate in their decision-making. At J&J stakeholders are even drawn into its product development processes.

Internally, we have seen that all organizations, small and large, have set up structures to elicit opinion from their employees. In the case of J&J it is a rather elaborate structure. We have already discussed the J&J structures in detail and know that an entire sub-section of its HR Department is solely devoted meeting this need although, as noted, our empirical data focuses on one subsidiary, as an illustration.

Involving stakeholders will not have good results if they do not see that how their contributions are included in the organization's decision-making process. If this is not made clear to the stakeholders then the integrity of the whole stakeholder process is challenged. Among the sample organizations in our study we have collected much evidence that indicates that their internal stakeholders, especially employees, do feel that their input has an effect.

The above is not possible unless the organization and especially the management develop an attitude of relegation of power. The management needs to understand that they need to consult people and groups outside the organization to arrive at important organizational decisions because these groups are important and have relevant

information. The major attitudinal change involved here is that the management should unlearn the practice of exclusive decision-making and learn the habit of inclusive dialogues.

None of the above would be possible if proper structures were not created. In Chapter 6 we discussed such structures in all of the organizations in our review and found processes and structures in place that answer these needs of stakeholder management discussed here. Internally, almost all organizations had surveys, dialogues, meetings and discussion forums where employees could give feedback on organizational policies and performance. Externally, these organizations also had methods of collecting feedback from customers. At TT we found an elaborate process by which HIV/AIDS activists were included in its product development process.

One important fact pertinent fact here is that, as we have discussed in this chapter, the smaller organizations in the sample have less developed structures that J&J. But we also discussed evidence that showed that as the smaller organizations are expanding they are developing instruments that will be helpful in maintaining a stakeholder culture, for example, in Dansko one of the HR managers commented that as they are growing they need to know what the employees think of the organization's mission statement and performance so they had their first employee wide survey. In sum, a continued commitment to stakeholder management has lead to the development of instruments and structures that are more sophisticated in keeping the stakeholders involved with the firm.

Finally, management in proactive stakeholder organizations must also create a mindset in which they are comfortable with flexibility, change, and "double-loop

learning"[43]. One of the main purposes of involving stakeholders is to assess their interests. Once these interests are ascertained a proactive stakeholder organization would try to find a balanced approach to address them. We have discussed in this chapter the fact that all of the studied organizations involve, with varying degrees, their internal and external stakeholders in dialogues. These dialogues lead to decision-making. We have also discussed evidence, in this chapter, that from the point of view of the stakeholders our sampled organizations include stakeholder opinions and suggestions in their decisions. Keeping the above in view it would be safe to assume that the management in proactive stakeholder organizations will need to be flexible as they are trying to balance different and ever changing stakeholder and organizational interests.

"Double-loop" learning ability is closely linked with flexibility, adaptability, and change. "Double loop" learning occurs when "error is detected and corrected in ways that involve the modification of an organization's underlying norms, policies, and objectives" (Argyris & Schon, 1978). This is opposed to "single-loop" learning when organization detects and corrects its present policies and processes to achieve its current goals (Argyris & Schon, 1978). In sum, what double-loop learning entails is organizational ability to go back to the drawing board and reframe organizational beliefs and norms if certain problems persist.

Proactive stakeholder management by its very nature requires "double-loop" learning. The main focus of proactive stakeholder organizations is stakeholder needs and interests. This does not mean that proactive organizations do not care about organizational interests. But it means that they have this instrumental belief that

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[43] For details read Argyris & Schon (1978). *Organizational Learning: A Theory of Action Perspective.* Addison-Wesley, Massachusetts

organizational interests will be served best through satisfied stakeholders. Based on this core focus organizations interact with stakeholders to assess their interests and once ascertained proactive firms build business strategies around them. In other words, stakeholder interests and position become core assumptions of organizational actions. But do stakeholder interests remain the same and never change? And is there a permanent stakeholder list? Stakeholder interests change all the time. Furthermore, new stakeholders constantly emerge representing new interests and sometimes existing stakeholders become weaker or merge with other stakeholders. This essentially means that the core assumptions of organizational actions will change with every major change in the configuration of stakeholders or their interests. And every time it happens managers will have to go back and scratch old assumptions and norms and reframe strategy around new norms.

It must be pointed that the evidence of "double-loop" learning in the studied organizations is not direct. However, we have discussed in this chapter evidence that indicates towards "double-loop" learning awareness in management. We have discussed in all of the organizations that they constantly endeavor to elicit internal and external stakeholder opinions. These opinions are taken with the view to alter organizational policies. We have discussed evidence that tells us that stakeholders of our studied organizations do believe that their views are incorporated in organizational decision-making.

Concluding Remarks

Have we achieved the goals we outlined in the beginning if this chapter? Our overall goal was to analyze how proactive stakeholder organizations are created. The

three main areas on which we were going to discuss our evidence were: What are the cultural features of the studied organizations? How are proactive organizational cultures initiated? How is proactive stakeholder culture maintained and perpetuated? And what attitudinal changes are required to create a proactive stakeholder organization?

In Chapter 6 we discussed our data to establish features of proactive stakeholder organizations. These features were mostly related to the external conduct of the studied organizations. In this chapter we have added to those features by establishing some specific cultural features.

We established that all of the studied organizations are value based organizations and their values influence their actions. In J&J's case, its Credo values are followed in organizational decisions and are the main source of organizational culture. Based on the Credo values J&J is an organization that has a culture based on openness, trust, collaboration, and autonomy.

We have found the same cultural basis in the mid-sized and small sized organizations. In sum, we have established a list of stakeholder organizational features that are common to all studied organizations, they are: internal autonomy, transparency, team-work, voice for the employees, consensus driven decision-making, win-win solutions, long-term relations and orientation, a positive view of human nature, wider goals for business firms, and flexibility. Finally, we have also established that these organizations do not see any conflict in being value based proactive stakeholder organizations and competitive businesses.

We have established beyond any doubt that in all of our studied organizations the proactive stakeholder cultures are initiated by the owners and the top management. The

only difference is that in case of J&J which is a much older organization the culture based on the Credo was established in 1930s by General Johnson and since then has been perpetuated by successive generations of top management. Also in case of the smaller organizations the employees have a much direct access to the owners; therefore, the inculcation of culture is more direct.

The next major section of this chapter focused on maintenance of proactive stakeholder culture in the studied firms. A major theme that has been followed in this section is that all artifacts, policies and instruments to maintain and perpetuate stakeholder cultures support each other and are interconnected. The core is the value system propounded by the owners and expressed in organizational mission statements. Then around these mission statements a comprehensive edifice is created to maintain a specific organizational culture.

In J&J the Credo is the main value system and we have found that it is not just a lofty statement but in fact, from the company's point of view, it is considered and treated as a living document in the sense that it influences current organizational policies and decisions. The Credo is then perpetuated and maintained by mutually supportive policies and HR functions like: recruitment, training, assessment, and some general policies of transparency, autonomy, and promotion of win-win solutions.

We have found similar dynamics in the smaller organizations in this study. One important difference is that the smaller organizations are not as sophisticated as J&J, which means that due to the limitation of their size their artifacts and instruments are not well developed. That being said it has also been observed that as these firms are getting bigger they are developing more elaborate instruments.

Finally, we also found an important trend that exhibits a dual pressure created to maintain organizational cultures in all of the studied organizations. Once employees that fit the organizational culture are hired they are further inculcated in the organizational values through other HR policies, artifacts, and rituals then they become self appointed protectors of those values. The supporting dynamics of dual pressure, seen in all studied organizations, are: absence of retaliation against employees who speak up when they see that organizational vales are not being followed; and identification with the organizational values by most of the employees.

Finally, we have established the fact that the creation of stakeholder organization requires double loop learning ability and a comprehensive attitudinal change. Without too much direct evidence we have discussed that a proactive stakeholder organization will have to have the ability of double loop learning. In all of our studied organizations we have found the existence of basic ingredients needed to perform double loop learning. With double loop learning our main contention has been that creating a proactive stakeholder orientation requires comprehensive attitudinal change. It should not be treated as a fad; it is a system that needs all its ingredients in place for it to work.

The most important question at this stage is that what is the contribution of this chapter to stakeholder theory?

In chapter 3, where we discuss empirical works in the field of stakeholder theory, we saw that there is almost no empirical works that actually describe specific cultural features of stakeholder organizations and go into the mechanics of how these organizations are created and sustained. All of the preceding discussion is foremost a description of organizational and cultural features of proactive stakeholder organizations

and it explains how and through what mechanisms these firms are created and maintained. Therefore, this chapter contributes in three ways: it adds to the set of features, discussed in Chapter 6, that distinguish stakeholder firms from other non-stakeholder firms; it describes and analyzes the dynamic processes and tools that lead to the initiation and preservation of stakeholder culture in the studied organizations; finally, it also discusses the behavioral requirements of establishing a proactive stakeholder organization

The next important question is that why understanding the creation and perpetuation of stakeholder organizational cultures is so important? To answer this question we need to begin with the business environment. In the last three decades or so business environment has become truly intrusive. This means that today the erstwhile sacrosanct boundaries of business organizations are getting bombarded by many internal and external entities. This essentially means that these boundaries have become porous and now business organizations can be pressurized and swayed to take actions that they would not have taken in the past. In more practical terms this means that now there are many entities that influence organizational decisions to achieve their goals and purposes.

The above creates the need to go beyond conventional economic models and take into consideration not only the shareholders but also a wider array of stakeholders. Here, as we discussed in Chapter Six, firms can adopt different strategies, they can be proactive, accommodative, or reactive to stakeholder pressures.

Based on the above many organizations are now following the stakeholder management as a strategy. There are many who also believe in the normative value of stakeholder management but this work is more interested in studying stakeholder

management as an instrumental strategy. So if the need and incidence of stakeholder management has increased then the necessity to understand the dynamics of establishing stakeholder firms has also become important.

Chapter 8: Instrumentality of Proactive Stakeholder Management: Benefits & Problems

"Believe me, having a credo doesn't stop you from being able to [or] want to earn money and do a good job doing it. They are not mutually exclusive."

Senior Manager (J&J)

"There is a common culture that overlays a very aggressive entrepreneurial spirit. Those two things together probably account for success."

Senior Manager (J&J)

Once it is established that these are indeed stakeholder organizations with specific mechanisms for stakeholder management and distinctive stakeholder cultures, the next question is, why are they engaged in stakeholder activities? This question goes right to the heart of stakeholder theory in establishing the instrumentality of proactive stakeholder management.

In the previous two chapters we covered two major aspects of stakeholder management. In Chapter 6 we discussed the dynamics of stakeholder management. This included an examination of which organizational features of a company indicate that it has a proactive stakeholder strategy, ways in which a company's stakeholders are identified by its managers, and the methods by which such companies resolve conflicting interests between various stakeholders. In Chapter 7 we discussed in detail how stakeholder organizations and their cultures are created. We began with a discussion of the organizational cultures of the firms under review, how these cultures were initiated and how they were sustained.

As far as the instrumentality of stakeholder management is concerned various stakeholder studies have sought to establish the utility of stakeholder management. That is to say, scholars have attempted to define the relationship between various goals of an organization and its practice of stakeholder management. Individual studies, taken by themselves, do make sense and present credible research, but when these studies are compared, the picture that emerges is far from clear.

For instance, Meznar et al. (1994) found no relationship between a company's stakeholder and ethical managerial decisions and its stock prices. Omran et al. (2002) also found no difference between the economic performance of stakeholder and non-stakeholder firms. On the other hand, Verschoor (1998) found that stakeholder firms perform better than non-stakeholder firms. Moneva (2001) came to yet another conclusion, claiming that there is a positive, but insignificant relationship between stakeholder management and firm performance.

Other scholarly works also present a wide range of conclusions about the relationship between firm performance and stakeholder management. Berman et al. (1999) and Hillman and Keim (2001) found evidence of a positive effect by stakeholder management on company performance, but only in those instances where the firms followed a strategic approach to stakeholder management in which only firm centric stakeholders are important. Greenley and Foxall (1997) also found limited data to supporting a positive effect on company performance in a stakeholder model. Kotter and Heskett (1992) did find that a stakeholder approach promotes an adaptive culture that is beneficial to firms that apply it. In discussing stakeholder management, Post et al. (2002) pointed to the benefits of a company's good reputation that derive from a stakeholder

model. Finally, both Van de Ven (1980) and Silanpaa (1998) found that including stakeholders improved a company's decision-making process. In sum, these works present conflicting conclusions and provide only partial insights into stakeholder management.

In this chapter we will seek to offer a broader, more comprehensive understanding of the benefits of stakeholder management.

At this stage it is pertinent to clarify three points.

The first is that the aim of this work is not to determine the positive effects of stakeholder management on a company's financial performance, but rather to focus on its internal and external relationships. The reason for this focus is that an organization's financial performance is the result of many factors, some of which are unknown. For example, how many managers can answer with certainty that a sales increase was due solely to a recent advertising campaign? Additionally, it must be understood that a stakeholder management strategy is long-term, so its effects on short-term financial returns will always be ambiguous. Therefore, this work will concentrate on the relational benefits that come from stakeholder management.

Secondly, as already pointed out, we are not discussing financial performance of the studied firms, but we are discussing business related benefits. To further clarify, there is a relationship between business and relational—i.e. people-- benefits. All of the discussed firms are value based organizations, therefore, based on their values, including the value of developing long-term relationships with business partners and employees, these firms get relational loyalty that is often manifested in business benefits like

customer loyalty or better deals and concessions from the suppliers or vendors. In sum, in the following sections we will discuss relational benefits but also business benefits that result from being a stakeholder firm.

Lastly, we need to recognize is that a company's stakeholder strategy may be based on instrumental aims or on normative, ethical reasons. A normative motivation for why these organizations are stakeholder firms might be because they believe that it is the right thing to do. This present work will not address normative motives as a primary focus. This is not because they are unimportant, but because normative motives represent a much deeper psychological and moral state of being, and therefore lies beyond the scope of this study. This work is an attempt to make a case for stakeholder management as a viable business strategy with several relational and other benefits.

In this chapter we will begin by discussing the benefits of stakeholder strategy individually in each studied organization. Then we will discuss some derived benefits of stakeholder strategy collectively. Finally, we will also discuss issues and shortcomings of the strategy.

Benefits

Untours

This analysis of benefits focuses on the Untours employee statements. Untours, as discussed in the Chapter 5, is a company that offers tourism in Europe. It is a small company whose impact is local. Therefore, its main stakeholders are its employees and customers. This organization claims the community as one of its main stakeholders. But we must keep in mind that the community as a stakeholder does not play a role in the decision-making processes of this firm. Likewise, Untour's identification of important

stakeholders within the community is based on the owners' worldview and interests. Nonetheless, Untours is still a value-based normative organization, in so far as it distributes its profits to the community and the owners neither draw a salary nor retain any of its profits. The main focus of the organization, in the words of its general manager, is,

> "To alleviate poverty, but not in the traditional handout…so [we are] doing it in terms of business and loans."

Without going into an in-depth analysis of the owners' views as the basis for classifying Untours as a normative-based firm, we can say that Untours does appear to be an organization created for the good of the community and of its main stakeholders (i.e., its employees and customers).

In order to pursue its goals however, Untours must be a viable business. If it fails as a business, then its normative purposes will fail with it. So Untours is also an organization with a business strategy and model. The owner believes that a good business,

> "Includes more than [the need] to make money. A good business model can include…sustainability [of] those things [that] are good for the world and [that] I also think are good for the business."

He further explained the model thus,

> "I think that was my first value...its good business because it really serves higher human needs....We're trying to enrich people's lives by exposing them to other cultures…The older model of business – trying to just make profits for the stockholders… [has] such a narrow terrain...that it finally catches up and hurts the stockholders as well as other stakeholders."

This brings us to the question of how Untours can achieve its goal in the framework of a viable business, and how its normative, long-term stakeholder strategy

can improve its financial performance. The owners believe that once an organization has established its reputation among customers as one that shares a certain number of their values, then they will stick with that organization and bring repeat business. If one is not merely selling products, but is promoting customer values, then, in the words of the owner, one is also providing a,

> "Unique thing [that] will also help [employees] sell more goods, putting another value into the product….I think that's really [a] creative approach….It's good business because it really serves higher human needs."

Untours' general manager agreed with the above conclusion and added some specifics on the company's customer retention patterns. In 2008 and 2009 the firm mailed out two different business letters to its customers. In one of these Untours invited a section of its customers to give them repeat business. The other addressed a different group, in which Untours added information on the activities of its foundation (which helps fund important social causes and extends loans to small businesses), and asked for donations towards these efforts. According to the general manager's statistics on the results, the customers who received the second letter provided more return business and even provided numerous testimonials to Untours' great work. This obviously does not constitute a scientific analysis, but it does indicate that the company's customers share its values and that this contributes to their loyalty.

Untours' next important stakeholders are its employees. The general manager believes that it is good business to deal with the employees justly. In his words,

> "We're coming at this from a fundamental values perspective. We're doing it because it's a right thing to do. We believe it's not a bad thing to do from a business perspective…being generous when you're laying off….treating

employees with respect. All of that is just smart business…. [and] is just going to affect your bottom line."

Both the owner and the general manager believe that their treatment of employees results in greater loyalty and motivation. The question is how does this work out in practice?

Let's revisit the layoff episode at Untours, which has already been discussed in detail in Chapter 6. The general manager believes that, based on their stakeholder values, layoffs "for us as a company, for who we are, that is a big deal." Therefore Untours went to great lengths to explain to its employees why it took this step as a last resort. Employees were involved in discussions of the decision-making process. Additionally, generous severance packages were given to the laid off employees. The general manager described how he grappled with this challenge at the time,

> "We had been talking about this for months. Everybody knew this was coming….We were trying to hold it off as long as possible. But I told people as soon as it became a realistic possibility. So it was very clear. I did postpone it once, partly at the request of [the owner], who agonized with me on this decision and was quite disturbed about the need to do this."

The severance packages were an important component of how the layoffs were handled. The general manager related that,

> "the owner insisted that we do it in a very fair manner…When I came and said that I'd like to be extra-generous on them the benefit side, on the severance side, and he said okay, let's do it."

The general manager contrasted Untour's generosity in layoffs with another business of the same size in this manner,

> "I don't know if another company, in our industry, of our size…was nearly as generous as we were with severance. I know a company, whose owner I talk

with frequently…[that] also laid off….She [the owner] laid off more than a third of her staff …[but] she gave nothing [to laid off employees]….nothing at all."

One strategic benefit of treating employees as important stakeholders is that this strategy results in low turnover rates. This same manager noted that,

"Even those laid off would say yeah, that was in keeping with the core values of the company, which...for me felt like a major accomplishment. I couldn't have done it without the owner who [was] willing to spend money on it…Did it [the severance packages] make economic sense in the short term? Probably not, but I think it's going to have...an impact on our success since this...motivated employees."

The generous severance packages were thus not just expenditure for those who were laid off; they were also an investment in the remaining staff. As the manager added, it made good business sense to,

"Not to have a bunch of people who are leaving at the next opportunities…..It has had an impact. I just can't quantify it."

Quantifying loyalty is indeed difficult. But the testimony of one employee gives some measure. In speaking about the recent layoffs, she was moved to tears. But these were not over hard feelings. She explained that in midst of such painful decisions; a sense of fairness had been retained,

"I think everyone knew that this was not done with any malice whatsoever ….It was not done to increase the bottom line….It was done to keep the company in existence ..I mean it is a matter of numbers….we don't have enough people traveling, so we cannot pay the salary for all the employees….[It] is interesting for me because an acquaintance works for a company where his boss owns a yacht….and when his boss laid people off, I was really angry to hear this….so to know that my boss…So when he needs to lay someone off, it's not so that he can keep his yacht....and I think that makes a big difference."

There are indications that such loyalty results in greater staff stability. In the interviews conducted with employees, it was clear that they liked the company and wanted to remain there. Untours does have a relatively low turnover rate. Average

employee seniority is about ten years. This may in part also be attributed to the slowness

of the overall economy and high unemployment. But interviews pointed more toward the

positive aspects of Untours as a basis for staff retention. As another employee remarked,

"people stay here forever." This employee added that,

> "If they [the employees] feel they are cared about and cared for, they will work
> harder….I think it makes for a better company, they work harder, they will, you
> know, invite other people to come and work as well, and I think it will attract
> better workers as well."

Green Shirts

This analysis of benefits focuses on the wider community, customers, suppliers,

and vendors as stakeholder of Green Shirts. Green Shirts is another small company. We

discussed the details of Green Shirts' business in Chapter 5. The company's core business

is manufacturing t-shirts. It was a very successful business before the enactment of

NAFTA and had many big brand names as customers. But after NAFTA, Greens Shirts

began to experience the down-side of global cost competition. As one GS owner

explained,

> "NAFTA opened our eyes to global competition, from the standpoint of labor
> costs, and apparel takes a lot of labor."

It was at this point that the company decided to change its basic business model.

These adjustments centered on two related principles: the "triple bottom line" and social

justice.

The triple bottom line model poses three important criteria – people, profit and

planet. This brought many changes to the way GS did business. Today, over 99 percent of

GS products are locally manufactured. GS developed its own higher-quality and

environmentally friendly print-dye process. It has increased its use of biodiesel, wind-

power and solar power in its factory and office facilities. In short, GS has reduced its

environmental footprint.

<center><u>Box 8.1</u></center>

Proactive Stakeholder Management a Viable Business Strategy

"Believe me having a credo doesn't stop you from being able to [or] want to earn money and do a good job doing it. They are not mutually exclusive"
<div align="right">**(Senior J&J Manager)**</div>

"There is a common culture that overlays a very aggressive entrepreneurial spirit. Those two thinks together probably account for success"
<div align="right">**(Senior J&J Manager)**</div>

"we don't expect them to make personal sacrifices….we don't feel that is a sustainable basis to keep and attract the best quality employees….this is not a business based on sacrifice."
<div align="right">**(GSB Co-owner)**</div>

The social justice component of GS's new strategy is based on a stakeholder

belief. A senior manager said it means,

> "Looking at all the people that are affected by our business, from our employees, to our vendors, to our customers."

He added that internal social justice signifies that,

> "You have a democratic workplace, that you have a work environment that takes into consideration the people – their needs, their safety, their employment, their fulfillment. It's a wide range of things."

External social justice, on the other hand, means that the organization develops

long-lasting and mutually-beneficial relationships with stakeholders such as customers,

vendors, and the community as a whole.

This brings us to the question of how GS's new business model is good business

strategy. One benefit, as with the case of Untours, is that consumers see their values

reflected in GS and are thus motivated to become its customers. As one GS owner

attested,

> "This [business strategy] is actually another competitive advantage. A lot of people do buy from us because of how we run our business, rather than only based on the products that we sell."

Another advantage of the new business model is that the loyal customers it

generates give GS the benefit of doubt when issues arise. This same owner explained

that,

> "Our customers are willing to work with us when we make mistakes. I mean that's a huge thing too. We make mistakes and if we build these trust relationships with our customers, they are significantly more willing to accept our shortcomings than the traditional apparel customers back before NAFTA."

Customer loyalty to GS values extends to the point that retailers are willing to pay

higher prices for its products. This is a significant business advantage, considering that

big brand retailers have commonly turned to lower-cost suppliers after the onset of

NAFTA. One senior manager described the depth of GS customer loyalty,

> "We don't just have customers, we have advocates. I mean, when we go to shows, we have people come and talk to us, they love what we do, they love what our company's about….Over the recession we did suffer quite a bit, and have suffered, but our customers, rather than going to a lower price option – rather than finding another printer who could just do it cheaper – a lot of them are just not ordering shirts at all, I mean, they're mindset is, if I can't order from Green Shirts, I'm just not going to order. I'm just going to go without t-shirts."

The manager explained that the same kind of loyalty and long-term relationships

that GS has cultivated with its customers is also found among its suppliers. In business

terms, this can result in better pricing and other benefits,

> "Compared to…other people [the supplier] might sell comparable products to, we see more willingness to work with us on special projects, working with us for special cuts, the different types of fabrics development….He [the supplier] is

much more willing to work with us on stuff like that because he knows that we've worked together long enough that if he has an issue, that we'll help him out with that."

He further added,

> "So working together like that, and building these trust relationship really helps to eliminate what you see in a lot of the rest of the apparel industry, which is mistrust, lack of transparency. We don't have to deal with most of that when it comes to our core suppliers."

In addition to supplier loyalty, a GS owner also spoke about customer loyalty in the current recession,

> "We saw about 35 percent sales drop last year. We had a very tough year...– we had people go out of business, we had people order less, we had people that didn't order. [But] we lost very very little business to price. Our product costs more money, costs by way of how it's made, where it's made. So what it tells me is our market is very resilient….Because if it were only price, then last year we would have had a lot of people that would have left us…that didn't happen."

With regard to its vendors the company is looking for long-term, mutually beneficial relations. According to one of the owners,

> "Make no mistake; we want efficient vendors who are selling competitively. On the other hand, we know that there are a lot of things that aren't measured by price, which is just generally looking after our interest. If we look after each other's mutual interest….That's the benefit you get by engaging them in a way that they believe, and that we act out, that we have their interests in mind."

We thus see that GS operates on the principle that looking after personnel by developing good relations with them is ultimately a good business strategy. One owner explained this long-term view,

> "It's a sound business strategy that you want to make a profit, but it's also just as viable that you don't want to take advantage of people. The reason why is, let's say you take advantage of your employees, well, we're, we have one location. If we do that, we're going to damage our future prospects for hiring employees."

The owners also believe that, a sustainable business practice "opens up a lot of other

paths that a business wouldn't normally take,

> "We're focused on, of course, making money. But also our people and our planet – it's really opened up a lot more paths, and to me, it's made business a lot more fun, even in these challenging times."

Finally, one of the owners explained GS's values and linked them with

its broader business strategy,

> "A lot of people think that when you do these do-gooder kinds of things, you know, looking after peoples' welfare and the planet, that it's mostly just kind of warm and fuzzy….But what we think is that it's good, sound business planning…..I think we have lost sight that we need to protect those people as our supply chain….It's not something to be manipulated and abused and take advantage of, particularly when the economy is weak....Somebody to nurture and bring along [these people] and make sure they're healthy, because as t-shirt printers, we don't sew our garments – we do the printing and the dyeing. But if we don't have shirts, then we can't do printing and dyeing. So it's important that we consider those people that are selling products to us. So it's a business strategy [to be] looking after your resources, which could be planetary resources as far as cotton, and water, and fuel, and those things."

King Arthur Flour

KAF is one of the mid-size organizations studied in this work. It specializes in

preparing flour and baking products. It is an old business with a history of about 200

years, but its present name and organization was actually re-initiated, almost from scratch

in the 1970s. In the last 30 years or so it became profitable and expanded to its present

size. A unique feature of KAF is that it is a fully employee-owned firm. Dansko also has

an Employee Stock Ownership Plan (ESOP), but the employee stake is less than five

percent. The fact that KAF is 100 percent employee owned gives it some unique features.

In previous discussions of KAF, it was noted that in the opinion of almost all KAF

managers and employees, the most important stakeholder are themselves, the employees

or "employee-owners." This contrasts with the lists of other organizations like GSB or Green Shirts, where community is ranked as the most important stakeholder, and J&J, where customers are its top stakeholders.

Another distinct feature of KAF is that, for a medium-sized firm, its employee-involvement structures are rather advanced and they function well. The main reason for this could well be that in a 100 percent employee-owned organization, the voice of the employee-owners is central, and all the necessary structures for it to be heard have been put in place.

There is also a unique aspect to KAF in how closely its organizational strategies are linked to the firm's stakeholder management: its employees are its owners and, therefore, its most important stakeholders. In fact, most interviews of its employee-owners indicated that they do not always distinguish between KAF's organizational strategies and its stakeholder management. Employee-owners are accustomed to think of themselves as the mainstay of the firm, with other stakeholders coming in a distant second, or third.

In practice however, KAF employee-owners do see a broader dynamic relationship between stakeholder management and organizational strategy. For instance, KAF and its employee-owners believe strongly in cultivating trust with their customers and business partners through providing consistently good products, and advertising these with full transparency. A mid-level manager in KAF's Media Relations Department explained the importance of this,

> "If people believe in what we're doing...And trust that we're the kind of company they want to do business with, they will buy products from us...And

by building that relationship based on trust, and respect and honesty, those people are willing to spend their money with us."

He added that, "our customers…they're great advocates for us."

An employee from KAF's cooking side provided an example of how long-term relations have direct business benefits,

"I think that it's helped us when the wheat market has been bad, like last year….because we work well and partner well with all of our mills, I think we're able to…be a little bit more flexible, to be able to negotiate….better deals….[we] got into a lot of high-price contracts, because of how the market was, and then when it started to come down, there were suppliers that would work with us, and say okay, you know, we won't hold you to the higher price for the entire contract."

She concluded,

"We don't usually have the cutthroat type relationships that a lot of corporations do, and maybe that's because...we're not looking to be the lowest cost flour out there. We're looking to be the best."

The above comments on customers as advocates bring us to another strategic benefit of a company's good reputation. We have discussed in the case J&J how its employees and managers consider the company's good reputation to be an asset. In the case of KAF, its good reputation is also seen as an important asset. A senior manager in the finance department explained how KAF seeks to apply its stakeholder policies and gets involved with the community in a way that brings long-term goodwill benefits,

"There's always a goodwill benefit….The reason we get hundreds and hundreds of donation requests is people look to us as the kind of company that would grant such a request….To some degree…we do use it for marketing. We put on our website that we have a good works program….We send out a holiday card every year, and we indicate that we're donating money to share our strength to end hunger. So yeah, I can't deny that we are trying to derive some positive…goodwill benefit."

All the companies discussed in this study try to build built long-term partnerships with customers and suppliers based on good business practices. For example, Untours and GS cultivated their strong business ties from a seed-bed of shared global and social views. In other words, Untours and GS were to one or another extent motivated by their normative stances. The same is true for J&J, and GSB. But in the case of KAF, we find that same goal of a trustful, mutually beneficial partnership with customers and suppliers has been arrived at, but with less of an emphasis on shared social views.

KAF's internal focus on its employee-owners has resulted in a loyal, family atmosphere. One employee-owner offered a personal take on this,

> "To me the benefit is you feel like you have your back covered. Because you know, as they say in the military, you're not fighting for your country, you're fighting for the guy next to you. And that's what it feels like here. You're not working for the man some place; you're working for the people next to you. And that's just a good feeling, it makes you work harder."

This camaraderie gives many a feeling that they are actually working for themselves. This reflects the fact that KAF is fully employee-owned firm.

The organizational pride felt by KAF employees is based on what the company stands for. Its overall stakeholder management creates an intrinsic motivation and job satisfaction for its employees. In general all interviewees were motivated to work for KAF and took pride in what it does. And as with J&J, KAF employees felt close to the company's organizational goals and achievements. This demonstrates the efficacy of KAF instruments used to create and sustain its culture, as discussed in Chapter 7. This was expressed by one of the employees,

> "As I learned more about what King Arthur Flour was doing and the company's commitment to those [philanthropy and community based] kinds of issues, I felt

better and better about working here. Because not only did I feel like I was working for a company I could believe in, [I could also] really get behind the kinds of things that we're doing beyond our core business….So it's great to be able to combine the job that pays me with some work that I care very deeply about."

An additional benefit of KAF's stakeholder culture that puts a premium on trust, long-term relationships and philanthropy, is that its employees have come to see a greater similarity between KAF's organizational and their own personal values. As a result, some employees have changed their behavior. One employee offered an example of this,

"There's actually an employee here that I love working with....A couple of years ago we tried to recruit him to be a member of our stewardship [team], and he said 'I don't really care about all that green stuff'….And now he's one of the champions of our efforts. – he's still not on our team, but he's probably the person who comes to our team the most with new ideas about how we can be more sustainable….He's really transformed into somebody who thinks about those things all of the time, in a very deep way."

KAF's internal focus is not absolute however. KAF does integrate social causes with its business model. In interviews, attention was drawn to donating to end hunger and educating people in the community about baking. One top manager commented, "I'll call it a goodwill benefit." In describing KAF's education programs he added,

"We have another program that I didn't mention….that's one in which we go into middle schools, and we give every child that we teach free flour and free yeast and free recipes, and free equipment to be able to go home, and bake bread with their families and then half of the bread that they make is donated to a needy organization. We call it this our Life Skills Program. Formally that's a marketing program, we know that we derive the benefit of brand awareness and brand loyalty out of that….We get letters from the parents saying, wow this is a great program, I've never seen such a great thing, I enjoyed baking with my child, I'm always going to buy King Arthur flour."

As mentioned at the outset of this section, proactive stakeholder management, especially its internal aspect, also leads to better decision-making at companies like KAF. Employees are engaged in department level decisions such as changing a catalogue or

designing an advertisement. They are also engaged in company-wide decision-making at monthly meetings, where major decisions are made on issues such as the development of a value statement for KAF. They are given full information about how the company is doing. Decision making does not mean that whatever employees say will be accepted. But employees do see their input reflected in the final decisions that are adopted by management. One KAF employee described his experience on this score,

> "I've seen examples of….people's suggestions and comments and ideas actually influencing how we do business – things like the kinds of benefits that we offer to our employees, even what the cover of our next catalog is going to look like….So I definitely have seen my own input as well as the suggestions and ideas of other employee-owners being implemented and turned into something positive for business."

Dansko

Dansko, the second medium-size company in this study, is a shoe manufacturer. The details of this business have been discussed earlier.

Dansko centers its business model on sustaining long-term relations with its internal and external stakeholders. The salient questions for us at this point are, what are the benefits of Dansko's stakeholder strategy and what is the relationship between Dansko's stakeholder management and its accommodative-proactive organizational strategy? The most important benefit and one that links the two together is "goodwill." A senior manager in the finance department of Dansko calls it the customer's "benefit of the doubt,"

> "People will give you the benefit of the doubt….Everybody is going to have a problem, we don't have a 100 percent perfection in our shoes….But they [the stakeholders] know when they call Dansko to fix that problem…we're going to…fix that problem…And it makes a big difference versus if you don't have trust with someone and you notice that problem…[If the customer is]

thinking…I had a bad experience with them and I am not going to give them a chance next season….whereas we certainly are going to have the opportunity to overcome those mistakes."

Retailers are thus an important stakeholder for Dansko. As a firm strategy, Dansko has in general developed long-term relationships based on trust with them. As one sales representative commented,

> "I think at this point a lot of our retailers already have that relationship established….you know sometimes it [trust building] might burn you. But if you've come through it together, you are stronger in the end, and I think that's where Dansko stands with its retailers we have come through a lot and retailers that stand by us I, those relationships don't go unnoticed."

The same employee gave an example of how a recent major supply disruption tested their customer's trust. Dansko had no idea of when they would have their shoes ready. But their retailers stood by them and when things got better for Dansko, the firm offered the retailers discounts. A senior manager commented on the outcome of this incident,

> "So we came through it. We came through stronger than ever. Now our relationship is stronger with them."

The "benefit of the doubt" on the part of Dansko customers rests upon two foundations. The first is that Dansko provides a good product, doesn't misrepresent it, and provides good after-sale customer service. The second foundation is that Dansko is a company that customers feel is doing good things for the community and that shares their values. A senior manager said that the work done by the Dansko Foundation in the community,

> "Generates the halo effect….We do something good for the local community, they have a good image of Dansko. And hopefully, that helps us in terms of...sales."

A senior manager recounted a telling anecdote in this regard,

"I was sitting with a restaurant chef, he didn't know that I was a Dansko employee. But he was talking about Dansko. Part of the reasons why he...wears them is because they are comfortable.… Then he started talking about the great things that Dansko is doing in the community and society. I want to support businesses like that."

Another senior manager from sales explained that Dansko customer retention is also based on shared values. While he had no statistical evidence, he attested that,

"We certainly hear from customers about you know, why, they are lifelong Dansko customers…[a] large part of it is….the product. But they also point to Dansko's reputation."

Here is how another manager expressed the business benefit of Dansko values,

"People are going to buy products that…they like the style [of,] or they are comfortable [with]…But they want to feel good about it as well. And I guess it helps us with our consumers that they know we are the kind of company that cares about more than just making a buck."

Dansko also considers one of its most important stakeholders to be its employees. Their loyalty is evidenced by the fact that they want to be in the organization. This is expressed in their long tenures, and the firm's low, four to five percent annual attrition rate.

One senior manager pointed out that people are happier in a relaxed atmosphere. The company also affords a good work/life balance by providing a lot of flexibility in work schedules and family needs. Another senior manager from Dansko's Finance Department detailed how Dansko gives excellent benefits. But even more importantly,

"I think in order to engage people, in order to get people motivated, I think it's more of...than just making money…They [the employees] believe in the product...they believe in [the owner]. So you get a…better…involved, a more engaged work force….through that [stakeholder] strategy."

A veteran employee described this good will,

"It's a different experience here altogether. It's exciting to come to work…Who we are and what we believe in and know the foundation that we have here in Dansko and how we give back to the community."

Give Something Back

Of all the organizations studied in this work, GSB has the most unusual business model. As its owners explain, this firm was created to serve the community. The owners do not get shares of the profits; they receive salaries, just like the employees. The profits that the company makes are almost entirely donated to NGOs and organizations devoted to social causes. Moreover, GSB is a green company that, as we shall see, promotes and audits green office spaces.

What is even more intriguing about GSB is that it is a "for profit" organization, and a competitive one at that. It competes with much larger, established companies like Staples and Office Depot. It recruits, trains and assesses its employees on the basis of their productivity, skills and competencies. GSB does not require of its employees to be socially responsible as individuals. It is only as a company that GSB contributes to the community. It may seem paradoxical that GSB's social activism applies to its owners and to the organization as a whole, but not to its individual employees. But GSB's owner explained,

"We don't expect [employees] to make personal sacrifices….We don't feel that is a sustainable basis to keep and attract the best quality employees...this is not a business [that']s based on sacrifice."

So this brings us to the question, how does GSB benefit from its stakeholder strategy?

To start with, at GSB the way it connects its business strategy, stakeholder management and community service is highly developed and clearly demarcated, and more so compared to most other organizations of its size. Here is one example. GSB does give most of its profits to NGOs, but only after funding its own current and future business needs. A senior manager gave an example of this,

> "We bought a building here in 2004 that year we didn't donate that much….We always look to what we need to do for a business decision…We have to stay sound in the business and please our bank."

GSB has a sort of dual business strategy. The quality and price of its products are competitive, but at the same time, the business stands for giving back to the community. A GSB middle-level manager expanded on this,

> "Well I think our very own business model adds to the value proposition of Give Something Back...Not only do we offer competitive pricing, which makes using us make…business sense, but we also make social sense. Our profits go back to the community, so you know that when you're spending with us, that it's going towards a good cause in the end."

Thus GSB is a company customers like to do business with because it's a good business decision, and because GSB promotes their normative values. One employee explained this:

> "There are customers that do care about the value proposition of…money go[ing] back to the community. For some companies, in particular non-profits, this can be a deciding factor in choosing between us and a competitor... as a vendor. And so even though pricing is usually a first consideration...the social factor is also considered as well by a lot of our customers."

To enhance its social profile, GSB not only donates to various communities, it also offers green audits for its customers. A sales manager explained that,

"A year and a half ago we hired a person who was in charge of our [energy] sustainability… [and] for consulting with our customers out there…as one of our value-added services."

GSB thus achieved an edge over its competitors, a small one, but as a senior manager explained,

"Well. it's our core differentiator.…You have a market place where there is very little differentiation.…we offer pretty much the same service that everyone else does. The only thing that we do above and beyond that is to innovate in terms our green solutions."

Energy sustainability is quickly becoming a big business. So GSB's green services serve to pilot GSB's marketing towards more new customers.

All of the above promotes customer retention and loyalty. And, as at KAF, GSB managers believe that this loyalty marks a step towards customers becoming GSB's advocates. A middle-level manager in GSB's sustainability section commented that,

"If we can provide them with the sustainability solutions that you want...we have a better chance of creating a loyal customer who is also a full time ambassador."

The owner of GSB believes that it has established itself in the market as a stakeholder organization, has earned a reputation and that has given the organization a clear competitive edge,

"I think people recognize us as a viable business, but also as an important community asset…We have established, over [an] eighteen-year period, that we are a ...responsible corporate entity. And that…clearly is a competitive advantage in the market place"

By the same token, the fact that GSB's profit donations go specifically to NGOs also opens doors to new customers. The scope of the NGO market was described by GSB's owner,

> "Something like...20 percent [of the] whole of the product standing in the San Francisco Bay Area is done by the non-profit sector…so it's a huge sector…a very strategic way of doing good business."

A senior GSB manager explained another key advantage that the company makes use of: all the money that it donates is tax deductible,

> "The money that is donated back to the community, the money donated can still be used as a tax deduction to the business. So it's not like that money is going to be thrown away to the public for their complete use with us getting nothing back. That money donated can still be used as a tax claim, which can save us hundreds of thousands of dollars during tax season. So it still makes business sense to give back to the community, and make a sustainable practice."

Another benefit of building a good reputation and long-term relationships becomes evident when a company makes a mistake – which happens with all businesses. As one GSB owner explained, it is precisely in these moments that the company's long-term relationships and its record of good service motivate customers to be more forgiving,

> "We are in…a complicated business. There are 75,000 products available for next day delivery….So, there are many, many problems with delivery, picking and packing and pricing…Two percent of the sales have mistakes in them….So there is always that opportunity for the customer to be upset with you….But I feel, like for us, when people understand what our overall mission is, they are more forgiving of our mistakes"

GSB also views the care of its employees strategically. In the words of the owner,

> "We treat our employees probably better than other companies would…we have profit sharing, we have annual bonuses….we make allowances for the quality of the lives of our employees within [our] ability, without sacrificing the ability to take care of our, our customers."

This importance that GSB places on its employees results in greater employee retention. As one middle-level manager explained, involving employees gives them a feeling that they are a part of something,

> "I think for a lot of us who have been here, you know, ten years or more, there are a lot of employees who have been here a very long time....[Employees,] definitely they stay longer. I mean, I think it's not unusual to have been here eight years and above.....I think because we get them involved, [in] making decisions [from the] ground up. I think that's fine, you feel part of something."

As with other organizations discussed, another indirect benefit for employees of GSB is that as they are exposed to certain company values that motivate them to become more socially responsible. This in turn creates a greater similarity of values between the employees and the organization. As one GSB manager commented,

> "I think that in our company, over time, you can't help but learn what philanthropy is about, and what our company is about – why we're here and why it got started….Philanthropy is talked about a lot, and our mission statement is talked about a lot."

In addition to the above there are also broader benefits that GSB derives from its stakeholder strategy. For example, the owner pointed to the bigger picture. Through its enhanced social profile, GSB gets back,

> "Return business, more committed employee, less turnover…a better community reputation in the non-profit community…And don't forget the non-profit community [is] like a trillion dollar community."

An important aspect of GSB strategy is how profit distribution to NGOs is decided. As discussed in the previous section, this involves a process of voting by employees, customers and management. GSB managers believe that involving customers in the process not only caters to the latter's desire to do good in the community, it also

results in greater customer loyalty. A mid-level GSB manager explained that some of their voting customers,

> "Are direct beneficiaries…So they may want to continue to purchase from you because they may be on your ballot…And then you have some customers who don't necessarily have the ability to donate on their own. So they may live almost vicariously through you, or use them, or use us, as their channel…And then the customer[s] who don't have to give up anything to work with us, we still give them excellent products at competitive pricing, so some customers you know, it is a direct benefit for them, but not everybody. Some customers are just in it for their product and price saving….[They] don't have to give anything up and the side effect of that is that you are still doing something good."

Finally, as with J&J, GSB also takes a broad and highly constructive view of its relationship with the community, which it regards as a partner. It sees benefits in creating a viable community. And although these benefits cannot be specifically measured, GSB management believes in them. As a senior HR manager, summed up,

> "It is to your interest to be part of the mechanism that aids and sustains a healthy and thriving community, just like us. We take care of the community. Because it's our customers you know, live and do business in the community. So when they prosper, so are we…..One thing unique about Give Something Back is that it is sincer[e] in being part of the of the community, as a business, as a partner….We put effort in partnering with community organizations, whether it's [a] city organization, [a] nonprofit organization [or] listening and doing what we can to solve, to be part of the solution to [a] community problem. As small as we are, we leverage our strengths, our resources our people skills in being part of the community."

Johnson & Johnson

As a Strategy with Benefits

We have already discussed much about the J&J credo and how it leads to their stakeholder strategy. To briefly recapitulate, J&J's Credo is its core principle, guiding all its actions. The Credo makes J&J a stakeholder organization in the sense that it says that it wants to place importance, in order of priority, on customers, employees, community and shareholders. Based on the Credo and J&J's managerial practices, its business model

aims to engage stakeholders in decision-making, develops long-term relations with stakeholders and remains competitive as a business.

All the above are, of course, excellent principles. But this again brings us to the question, how are they translated into J&J's business strategy?

Box 8.2

Benefits of Proactive Stakeholder Strategy I

Creation of a niche in the market (a market for virtue)

> *"I think that was my first value...its good business because it really serves higher human needs....we're trying to enrich people's lives by exposing them to other cultures"*
> **(Untours Co-Owner)**

> *"This [the business strategy] is actually another competitive advantage, a lot of people do buy from us because of how we run our business, rather than only based on the products that we sell"*
> **(GSB Manager)**

Improved decision-making

> *"They [AIDS Advocates] literally helped us to put together how the trial should look, what would be the best way to engage women and people of color, to get them interested in the trial and to keep them in the trial"*
> **(Senior TT Manager)**

If one looks at the history of the Credo, that is, at when General Johnson wrote his book *People must Live and Work Together or Forfeit Freedom*" in 1947, one realizes that the book and the credo were developed to defend capitalism. The book described times of uncertainty and turmoil such as the Great Depression, WWII, and the rise of fascism and socialism in Europe.

General Johnson was a decided reformer of capitalism. A senior J&J manager with a penchant for company history remarked that,

"He [General Johnson] felt strongly that democracies created jobs and dictatorships created armies of the poor. So he felt that we were reasonable alternatives to dictatorships that were rising in Europe. And democracies and capitalism offer poor people a way to live."

Believing in these principles, General Johnson also saw that there was a need to create a system wherein all sections of society moved together towards prosperity. One of his policies throughout the Depression years was to continuously reduce the prices of J&J products. This made it possible to both help those customers undergoing economic hardships, and for J&J to increase its long-term customer base. This also established a long-term model based on creating value for both the company and its stakeholders.

In today's economic downturn, we see that J&J and its subsidiaries apply similar strategies. A very senior TT official commented that,

"When we launched [our] first drug in the United States, in 2006, we bucked a trend of premium pricing. Every…new drug coming on the market had been priced at around a 5 percent premium on the last. We bucked that trend."

That price reduction was not just a socially good decision – arrived at with the help of activists – it was also a good business move. As the same senior manager added,

"It was [a] specific, business strategy to do so, reaching out…getting the views of activists, who had...their pricing coalition here in the U.S….We took a straightforward decision that it was better to have a slightly lower price, [to] be able to grow the market more rapidly."

This is the same strategy J&J employs in developing economies. J&J products are priced low with the view that this will not only be helpful for the main stakeholder, the customer, but that it will also create more long-term business for J&J. As one senior managers stated,

"When you see some of these economies really beginning to emerge, the Johnson and Johnson business, whether it be through these J&J baby lotions, or

whether it be through Tylenol, whether it be through some other compounds, we'll be there….So we are there to take advantage of the growth of these economies."

In an earlier chapter of this study we have examined J&J's relations with governments in countries such as China and India. This should be seen in the broader context of J&J's extensive philanthropic work throughout other under-developed countries in Asia and Africa. What we find is that J&J's good deeds are also good business. The positive reputation that J&J develops by promoting its values among new stakeholders simultaneously opens up new markets for the firm. On senior manager at TT added that this is always a two-way street and explained his work with international communities in this context,

> "What I'm doing is almost a pre-pre-marketing: the idea of building up communities to be healthy and self-sufficient. Because in a ten to fifteen year timeline, they may start to become business partners and markets for you….But I'm quite clear that what I'm doing in terms of working with communities, working with national AIDS commissions, working with academic institutes in these countries, building awareness of who we are, letting them have access to our compounds and our expertise, and non-profit prices…..So [as] we plant an awareness and an understanding of our company, a mutual understanding [occurs]. They learn about us, we learn about the culture within which they live."

A similar link is evident between J&J's overall business strategy and its stakeholder management in research and activist communities. We discussed earlier how J&J sought out new stakeholders and gave them a seat in its decision-making processes. In field of AIDS/HIV drug development, this meant that TT engaged activists. As noted, such an outreach could be attributed, at least in part, to the normative motivations of its Credo. But we also found that this served the firm's business strategy.

Through such actions, TT received support from activists. This took the form of a high ATAC Report Card grade – an important indicator of goodwill earned, and a piece of very positive publicity in a contentious field. This same inclusion of outside stakeholders also resulted in better trials at the drug-development stage for J&J's AIDS/HIV products and quicker FDA approval.

We have discussed the above benefits in Chapter 6; we can now add some corroborating evidence from an activist's point of view. Here is how one interviewee replied when asked why a pharmaceutical company would seek to include activists and other such stakeholders in pre-trial drug development,

> "This is my perspective as an activist…I can tell you what I understand to be important to pharmaceutical companies…For pharma[ceutical companies]….there continues to be a really potent interest in moving the research process along as rapidly as possible….Activists push through something called Early Access Programs so that once a drug comes into Phase 3 studies, ...the activist community asks the companies to open up expanded access to people who really need the drugs [and] who are not in a clinical trial, before the drug becomes approved...From the company's perspective, what more could you want than to have a lot of people on your drug, before it even reaches FDA approval, because once it's approved, you've already got a market for your drug. You don't have to start from zero."

At J&J, employees comprise another important stakeholder. The strategic benefit of treating employees as stakeholders is the latter's increased loyalty and trust. Interviews at mid- and lower-level management levels, as well as those at the employee level, indicated immense loyalty to J&J and its Credo.

In one of these interviews a senior manager, who has been with J&J for over 30 years, illustrated this loyalty through a personal story. In her earlier years with J&J, personal reasons compelled her to leave the firm for another. The hiring manager of the

new company told her that she had all the necessary qualifications and that she was most suitable for the position, but that she would not be hired. The reason? The manager explained that his firm had learned through long experience that it is not worth hiring people from J&J – they always eventually returned to J&J.

A more detailed discussion of employee identification with J&J, and of loyalty to its Credo, will be taken up later in the section. But suffice it to say for now that the above anecdote is representative of the broad-based company loyalty found among J&J employees.

J&J also reaches out to local communities as stakeholders. Here J&J takes a broader view of its presence. It believes that if its local community develops, then so will J&J. A senior manager took a long-term view of "building up communities to be healthy and self-sufficient,"

> "Because in the 10 to 15 year timeline, they [the communities] may start to become business partners and markets for you."

There is also a relationship between developing local capabilities and promoting the use of higher technology that will facilitate the use of medication and equipment created by the company. As one senior manager in J&J's Philanthropy Department explained,

> "The population that you are serving has to be well equipped for preventing hospital-acquired infections, or else that product that should be doing good, could lead to results that could be considered poor in other countries. So, therefore, activities that are geared toward improving the general healthcare setting are essential if sophisticated products are ever to be introduced in that setting. So from a stakeholder perspective if you do not invest in your stakeholders consistently… with a view towards their general improvement then probably… technical advances that distinguish your product will never be introduced there."

Box 8.3

Benefits of Proactive Stakeholder Strategy II

Reputation and Goodwill

> *"We certainly hear from customers about you know, why, they are lifelong Dansko customers... [a] large part of it is....the product. But they also point to Dansko's reputation.***"***

> **(Dansko Senior Manager)**

Happy Loyal Employees

> *They [the employees] believe in the product...they believe in [the owner]. So you get a...better...involved, a more engaged work force....through that [stakeholder] strategy"*
> **(Dansko Manager)**

Customers as Advocates

> *"We don't just have customers, we have advocates"* **(GS Senior Manager)**

> *"Our customers...they're great advocates for us."* **(KAF Senior Manager)**

Another strategic link in developing relations with the community is the wealth of data that J&J receives about its markets. The better that J&J knows its market, the better it can respond to its customers' present and future needs. A senior manager explained that,

> "There is a whole spectrum of stakeholders who in totality…create the environment that one works in. So if you don't understand the stakeholders and the different issues, you effectively don't understand your market either."

Finally, in the company's view of itself, the advantages of J&J's broad view of the importance of its customers to its success are multiplied by the company's long-term outlook and the fact that J&J has been doing it for longer than most firms. A very senior

J&J manager pointed out that today many other organizations are also engaged in stakeholder management and socially responsible behavior. But J&J has an advantage over them: it has been perfecting its practices for many years. As a result, J&J not only has an already existing broad base of trust among its stakeholders, it also has a deeper, more advanced knowledge of them. A mid-level J&J manager contrasted this to a shorter and shallower outlook on the part of other companies,

> "One big differentiator is that we think long-term....Where [as] I think some of the companies, especially pharmaceutical companies, are in it for the quick hit."

Reputation & Goodwill

A major benefit that J&J hopes to derive from its stakeholder strategy is a reputational, or goodwill benefit. This has been researched by Post et al. (2002), who found that goodwill, or as they call it, the "license to operate" that is obtained through stakeholder management, is just as vital as other, more tangible organizational assets.

J&J employees with several years of experience of working in the pharmaceutical industry have consistently stressed the importance of the goodwill that the company can earn through its stakeholder strategy. One senior manager in J&J's Government Relations Department linked J&J's goodwill benefit with the stakeholder long-term strategy,

> "Relationships also come in handy when situations arise…. So we develop trust with government[s].…If some agency goes off and does some harm to J&J and we have a valid claim,…yeah, I think we will get a better hearing because people will know that we are in it for the long run and we have a long term relationship with people. And it is the foundation for dialogue."

Another middle-level manager in philanthropy who had also worked on J&J's business side remarked on the general benefits of goodwill,

"Good reputation helps in many ways. It helps you in the market when you are borrowing money, [and] it helps you when you are going into a new market….I mean it's not why we do it, but it has those benefits because people know that you are an honest [company]."

Another senior manager pointed to the advantage that J&J's reputation and long-term perspective gives it over other companies in establishing future partnerships with the U.S. government in healthcare-related issues and in policy making,

"We have had some meetings in Washington where they are looking at a three-year commitment on something [with] the U.S. government… So you have J&J and "Company ABC," and which is going to be here three years from now? And will not have an ethical scandal, I think in those kinds of decisions we come out looking a little better."

In Chapter 6 we discussed in detail how J&J is a stakeholder organization and is seen as such by all its stakeholders and the reputational benefits that it derives from this. We are here corroborated by one of J&J's stakeholders in its philanthropy work. A senior official of the Elizabeth Glaser Foundation, an independent, worldwide foundation, testified to J&J's international reputation,

"In the world where I work, most[ly in] developing countries,….I think that there is a perception of Johnson & Johnson being a world leader in products and services. And when I travel around to clinics where J&J is supporting our work, people are very appreciative of corporate support….I think a company with a reputation, a worldwide reputation of Johnson and Johnson, is really appreciated…for having a long-term commitment to funding some of these programs."

Improved Decision-Making

In previous chapters we discussed in some detail how J&J and TT involve their stakeholders. This inclusion happens at various levels. In philanthropy, J&J and TT involve stakeholders at local, national and international levels. And as we have seen, these stakeholders are involved in setting standards for J&J's philanthropic programs and are included so that J&J can really understand their needs and address their most urgent

problems. This general concept was described by a senior TT manager in its

Communication and Public Affairs Department,

> "We interact with the NGOs, with IGOs – maybe to a lesser extent with governments….Our group interacts a great deal with external stakeholders, and therefore, as a result, it's always in our thinking…and I think…one of the responsibilities….for the groups that I work for is in fact to help translate potential stakeholder reactions to the decisions that we make….And so people [in TT departments] will generally come to us and say, well if we do this, what are some of our stakeholders going to say? How will they react….So I would say with our decision-making, stakeholder responses, stakeholder reactions are always going to be critical."

We have also made a detailed review of the way TT has involved AIDS activists

in its trial development. With the benefit of this involvement TT was able to develop a

drug that was better suited to the needs of specific patients. Additionally, TT was also

able to receive quicker FDA approval for it since the people who usually object to

AIDS/HIV drugs were in this case intimately involved in the trials and development of

the drug. We have earlier discussed evidence substantiating these benefits that TT gleans

from stakeholder inclusion. Here we can add further testimony from a middle-level

manager of TT,

> "So we meet with the advocacy groups…. We talk to them about what we're looking at when it comes to some of our products that are in the pipeline. We meet with them about clinical trials that we're getting ready to conduct, and they give comments on our clinical trials….They literally helped us to put together how the trial should look, what would be the best way to engage women and people of color, to get them interested in the trial and to keep them in the trial."

Internationally, J&J interacts with foreign governments and stakeholders by

conducting dialogues with them. We earlier discussed how these interactions and

dialogues created future opportunities for J&J by building up goodwill towards J&J

trustworthiness and integrity.

An additional benefit accrued from these contacts is that J&J better understands these new and upcoming markets. Proceeding from that information, J&J can better decide what to market abroad and how to do it.

These stakeholder interactions not only provide invaluable information, they also open doors to partnerships that J&J creates when it eventually enters that market.

This brings us to the various internal instruments and methods that J&J has developed to directly involve its employees in assessing J&J and its management, with a view towards altering policies where needed.

In earlier chapters we discussed how J&J elicits employee opinions through surveys and credo dialogues on J&J's performance vis-à-vis its Credo, the performance of its managers, and to assess the overall performance of the organization. Employee involvement at J&J's is a way for management to keep its finger on the pulse of employees. This allows administrators to better resolve employee issues and to create a better atmosphere in the organization. As a senior HR manager closely involved in the employee survey process noted,

> "What the employees say could be a leading indicator. So if the employees aren't feeling good about our quality, do we have a quality problem already that we just haven't seen, or is it a leading indicator for something to come?…We have a very talented workforce, and their role as leaders is to make sure that our employees really feel valued and contribute to the success of the organization. And that's the beauty of our survey process, because it does give the employee that voice."

Employee Loyalty & Pride

In almost all J&J interviews we found a widespread feeling of pride on the part of J&J employees for their organization. The exceptions to the above dominant trend did not

express lack of pride but they did not talk about it. The reason could be that in the interviews none of the interviewees were asked a direct question on how much pride they feel for their specific organizations. Coming back to organizational pride, it was observed that it was based on close similarities between organizational values and deeply held beliefs by the employees. It was observed that J&J employees and managers really believe in the J&J Credo, in its mission and are genuinely proud when they talk about the company.

We have discussed several aspects of employee pride and loyalty to J&J in previous chapters. In this section we will elaborate upon this briefly.

In Chapter 6 we discussed J&J as a stakeholder company where employees are considered very important – they are the main internal stakeholders. We also discussed how J&J employees have a voice that is valued and sought out in the organization. In this same chapter we also discussed evidence that employees like to stay at J&J. Most employees and managers we interviewed had been with J&J for more than ten years. An example of this was offered by a senior manager who herself has been with J&J for over 30 years. She at one point had applied for jobs at other companies. A hiring manager at of one of these companies said that she was perfect for the job, but that the firm avoids hiring people from J&J because they always go back.

A pertinent question here is, how is such loyalty and pride cultivated? In Chapter 7 we discussed how J&J culture is sustained and how combined HR practices result in a selection of employees that fit the organization's culture. We further discussed evidence that suggested that employees who benefit from the culture and company's leadership views eventually become guardians of these values.

Such dual pressure to sustain J&J Credo values is mainly the result of planned-out organizational policies, but the mechanism of this phenomenon is more complex than that. First, the right type of person is hired and inculcated in the values of the organization. In pursuing J&'Js organizational goals and values, the employee receives a sense of satisfaction and achievement. This intrinsic satisfaction serves as a bridge between an employee's personal values and goals and those of the organization. A middle-level manager at TT described the role of management in sustaining employee pride,

> "I think that they [TT] fulfill that commitment….I feel that we're respected, we're listened to, we're valued….Making a living is important, but to me the culture is more important because if I'm making a lot of money and I'm not happy, it's not worth it to me. So for me, I feel that I am blessed because I have the opportunity to do something that I'm passionate about...I love the rewards… [and] not just financial rewards, but the rewards [of a] good feeling of doing the right thing"

Another manager also described his pride,

> "There's a sense of…pride…[in] work[ing] for a company that's doing so much good for so many people….I think J&J does a phenomenal job of working with the outside, with the community – not only from a financial standpoint, but just from program support. So I'm very proud that that happens... I'm proud of the shareholder return that we give...and...having been in HR, I'm proud of the way that we work with our employees and our management. And I think that one of the things that sets J&J apart is the quality of the people that work here."

It is common on site visits and interviews to encounter J&J employees who take great interest in the history of the company. In interviews such employees and managers deftly weave in instances from J&J history and relate them to today's business issues. The name of General Johnson was mentioned quite often as a source of inspiration and guidance. It is possible that some portion of this loyalty may have been achieved through training employees to comply with the Credo as a professional requirement, but one gets

the distinct impression that the people interviewed really meant what they said and really believe in it. Just by way of an empirical confirmation, these views and beliefs were consistently expressed in more than two dozen interviews at different levels and J&J locations.

Derived Benefits

In this section we will discuss benefits that the studied organizations have derived from their proactive stakeholder orientations. These benefits are not the primary benefits discussed in the previous section. They largely represent structural and behavioral benefits accrued from a proactive stakeholder strategy. It is also possible that in the beginning these benefits might not have been envisaged by the top management. But they have become evident during data collection and analysis of this work.

It is pertinent to add here that we did not find direct evidence on all of the benefits discussed below. We have tried to put out all the facts we know and in some cases we have analyzed and interpreted the available data to put forward probable descriptions and causal links.

Learning Organizations

In the last few decades the business environment in America has changed dramatically. Globalization has linked all major and minor business centers, forging a much more interconnected world economy. As a result when one part of the world experiences economic shifts, this creates a ripple effect that is felt around the world.

At the same time, globalization has also spurred intense competition between nations. Countries are competing with one another for as big a share of the market as they can get. The result is that the same global economy that connects countries and regions

also compels them to differentiate themselves from each other in order to win more business and investment.

Box 8.4

Derived Benefits

- **A Flexible Learning Organization**

- **Behavioral and Structural Benefits**

- **Creation of a Market for Virtue**

- **Normative Control**

The competitive aspect of globalization has been further enhanced by the fact that technology that was an exclusive edge held by developed nations has today become more available to developing nations. With the dilution of the technology monopoly, more high-end products and services are being produced in developing economies. The best example of technology dilution is the creation of a Silicon Valley in India. As a result, competition from developing nations is no longer limited to low skill industries –it has extended into the high-tech sphere as well.

Another important development over the last few decades has been the improvement of communication technology, especially in the field of satellite TVs, cell phones, handheld internet devices, and other forms of electronic mass media. This has given globalization a new feature – the empowerment of the individual.

Today the individual is far more resourceful than in any previous era. The recent communications explosion via the internet has provided individuals with an unprecedented awareness of their world and environment. It has given them an

unparalleled ability to organize. As a result, the Internet has increased the ability of individuals to cooperate. We saw examples of this in the WTO protest of 1999 and the toppling of Philippines President Estrada in 2001, done solely through the use of text messaging and internet websites (Rheingold, 2002). Individuals have become empowered to such an extent that the difference between them and political structures has decreased (Reynolds, 2006). It has now become easier for individuals to organize and challenge large and established institutions.

Globalization and the changes it has brought about are fascinating topics, but our focus is on business organization. The operational question for us is, what changes has globalization caused for businesses organizations?

Widespread availability of technology and increased competition compel firms to be more innovative in their business and production strategies, organizational processes, product development methods and service techniques. And more broadly, we can take it as a given that the current overall increase in competition requires improvement in all the aspects of company performance that we have discussed up to this point. Today no business can stand up to global competition without innovation. The need to win diverse markets around the globe means that the days of unspecialized, non-differentiated mass production belong to the past Goddard, 2004; Heckscher, 2007).

Another result of today's highly developed of communications technology and its increase of individual knowledge and organizational capacity, is that individuals can quickly and effectively form interest groups that impact the bottom line of business organizations. Such groups are based on a broad array of values and ideals. This is why one of the major developments of the past two to three decades has been a widespread

increase of various social movements around issues such as ecology, gay rights, fair trade, global labor standards, customer protection, and so forth.

For businesses this change translates into a weakening of their organizational boundaries. Today organizational boundaries are not as sacrosanct as before. There are entities within and without business organizations that affect their productivity, profits and very survival. For instance, the campaign against Nike in the mid-90s demonstrated that a group of people who are not directly connected to and previously, as unorganized individuals, could not affect the firm, now can apply their enhanced ability and awareness to have an impact on a firm's goals.

We thus see that business organizations today get affected by a broader number of entities. This means that there will always be groups within a firm striving to exert control, and at the same time there will be external pressure groups doing the same.

These new internal and external challenges pose the need for organizations to be more innovative and flexible, and to achieve a broader acceptance among their present and future audiences (Harrison & St. Caron, 1996). This study argues that the solution lies to a great extent in stakeholder management. As discussed earlier, proactive stakeholder management allows organizations to keep a finger on the pulse of their stakeholders and bring about policy and strategy changes in a timely way. All of the organizations in our sample group are interested in what stakeholder think of them and seek to act upon the latter's input by adjusting their policies. This proactive strategy also helps to identify future and potential stakeholders.

This brings us to the question of how organizations can become more flexible and innovative. Stakeholder management allows two ways to do this.

The first is through a constant survey of input from stakeholders. This entails the creation of organizational processes and structures to both elicit stakeholder opinion and initiate change where needed. Stakeholder management promotes an outlook which rejects the notion that whatever the organization believes is right and best. Rather, a stakeholder outlook accepts that no process or policy can be final and that there is a constant need for improvement and change. We have discussed in Chapter 6 and 7 the lengths to which the studied organizations go to elicit stakeholder opinions for assessing their organizational policies and performance, and, if needed, to change their policies.

Secondly, stakeholder management helps these organizations to increase their innovation by involving stakeholders in decision-making and thus pushing the boundaries of "bounded rationality."[44] We have discussed in Chapter 6 that one benefit, as seen by the organizations, of engaging internal and external stakeholders in decision-making process is that this practice improves organizational decisions.

In sum, as discussed in detail in Chapter 7, there is some evidence that stakeholder organizations can become "double-loop learning" organizations by instituting processes that keep them abreast of major changes in their environment. Their learning and innovative capacity can also be enhanced when they include the views and inputs of related stakeholders in their decision-making. We have discussed some evidence that shows that all of the studied organizations, in varying degrees, involve internal and external stakeholders in discussion and dialogue. We have also discussed evidence in Chapter 7 that the stakeholders of these organizations believe that their views are heard and incorporated in the firm's decisions.

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[44] Herbert Simon in his book "Administrative Behavior" (1947) argues that individuals due to their limited information are unable to reach higher levels of rationality as their rationality is bounded or limited by the information they have. He further added that by forming organizations with many people and different functions human beings are able to enhance their bounded rationality through the integration of knowledge.

Proactive stakeholder organizations by their very strategy have to have "double-loop learning" capability. These organizations aim at balancing varying stakeholder interests. They have to innovate in structures, behaviors, and policies so that they can adjust to the ever changing stakeholder needs and demands. There is always a possibility that the needed changes in the environment require them to make fundamental alterations in organizational policy. Therefore, they will have to develop a high level of comfort with challenging underlying precepts of organizational behavior and alter them when needed. This in essence is "double-loop learning" ability.

Let us now talk about some specific organizational characteristics that might be helpful in creating flexible learning organizations. These organizations will need to develop a systemic mindset that sees organization as a part of a network of relations. As these firms intend to balance organizational and stakeholder interests they will need to create shared visions through open communication. They should also develop long-term relationships based on mutual trust. The need for long-term relationships based on trust also necessitates establishing ways and means to work together if not full collaboration then at least in full cooperation, which means that stakeholders at different levels are included in the decision-making process. Furthermore, stakeholder inputs should be valued and are included in the decisions of the firm when agreed upon by the concerned parties.

In this study, we have seen that all organizations in the sample have a certain mindset that envisions business enterprises as a part of a larger environment. Business, according to the management and owners of the studied organizations, has to remain economically viable but it also has an important purpose to serve its various stakeholders.

To achieve this goal we saw that these organizations develop common shared goals with their internal and external stakeholders.

We have also seen that all organizations in the study have instituted structures and policies to create channels of communication with their internal and external stakeholders. Through these communication channels they have included their stakeholders in the process of decision-making.

They have also developed ways and methods like surveys to assess how their organizational performance is seen by their stakeholders. We have discussed several examples of this in almost all of the organizations. Furthermore, we have also discussed corroborating evidence from the stakeholders on how they believe that their views are valued by the firm and they do feel that they are a part of the decision-making process.

Here one very important question is that how can these organizations retain characteristics of learning and flexibility when they have very strong cultures? As we will discuss later in this chapter that one of the issues that these organizations have is that they have developed very strong organizational cultures. One down side of having a strong organizational culture is that it makes cultural evolution difficult. In other word, it makes organizations rigid, thus inflexible (Kotter & Heskett, 1992).

The above argument goes against our earlier findings that the studied organizations are innovative and flexible. So how is our claim sustained? Let us begin with what generally is the organizational culture of the studied firms. From our analysis in Chapter 6 and 7 we can safely ascertain that studied organizations are proactive stakeholder firms, which essentially means that these firms believe that as organizations they are centers of stakeholder relations. These relations are important as stakeholders

can and do affect organizational performance. Therefore, the core belief or value of these organizations is that it is important to assess stakeholder interests, engage stakeholders in decision-making processes, and create shared goals and win-win solutions.

The cultures of the studied organizations are created on the above stakeholder values. Let us take J&J's example, J&J is a stakeholder organization based on its Credo values. The core of these values is that J&J is responsible to certain stakeholders. In chapter 7 we discussed the creation, maintenance, and sustenance of J&J's strong stakeholder culture around its Credo values. The main assumption behind having a stakeholder culture is that J&J has certain important entities that need to be satisfied through organizational actions because in the long run this strategy will have positive organizational outcomes. A corollary to this assumption is that stakeholder interests are not static. That is why, presumably, J&J interacts with stakeholders and has developed structures to ascertain changing stakeholder interests and to assess their views about J&J's performance. Therefore, it is true that the studied organizations have strong cultures but these are stakeholder cultures that at its core assume that they will change with the changing stakeholder needs and demands. Thus organizational flexibility might not get affected by a strong culture as the culture is linked with one of the main sources of environmental changes—i.e. stakeholder interests.

In short, the studied organizations have an approach to business that gives them the tools of understanding changing needs of their stakeholders. This capability, in spite of a strong culture, leads to organizational ability of "double-loop learning."

Behavioral & Structural Benefits

We have already discussed in Chapter 7 the needed behaviors and structural changes to create a proactive stakeholder organization. Here we would like to merely reiterate the point that proactive stakeholder strategy leads to the development of communication channels within and outside the organization and other structures and instruments that generally improve organizational communication and coordination. In Chapters 6 & 7 we have discussed evidence that our sampled organization, based on their size and need, have developed structures to maintain communication with internal and external stakeholders.

Additionally, as discussed in Chapter 7, proactive stakeholder stance leads to behavioral change in which the top management develops a systemic view of organizations and understand the need to cultivate long-term relations with organizational stakeholders. For this purpose the management will need to accept criticism and by including stakeholders in decision-making they will have to give up some power as well. In our discussions on the studied organizations there is no direct data that supports the above argument but we have discussed that these organizations do include stakeholders in decision-making. They do take pains to ascertain if their stakeholders are satisfied with organizational performance. They do so because they want to assess needed future changes in policy, which when done does include stakeholder inputs.

Finally, a very important aspect of the studied organizations is that they are being proactive stakeholder firms and doing all of the above when it is not incumbent upon them to be so. There is no law that requires them to be proactively stakeholder and their proactive stakeholder strategy also does not conform to the general industry practices.

This essentially means that they really do believe in involving stakeholders in decision-making and trying to find mutually beneficial solutions to problems.

All of the above data based facts do in an indirect way support our argument.

Creating a Market for Virtue

Vogel (2005) said that, "there *is* a place in the market economy for responsible firms. But there *is*[45] also a large place for their less responsible competitors."We believe that the same could be said for proactively stakeholder organizations. Today, as our sample of firms proves, proactive stakeholder management can be a viable business strategy. But the majority of firms have been successful even with a reactive or defensive stakeholder orientation. We argue in this work that one systemic benefit of proactive stakeholder organizations is that through their activities they create greater awareness in the market—i.e. the customers—regarding their value based business strategy and as a result create more support for it.

The above can happen in two ways: indirect awareness and direct influence. Indirect awareness is created by our sample organizations by just making customers aware of their policies and proactive strategies, getting involved with NGOs, supporting social causes, and by the very act of including customers and other stakeholders in their decision-making.

We can see several examples of the above in all of our organizations. J&J has a whole department or philanthropic work; it also donates to a number of foundations and does work to create awareness among patients regarding many long-term diseases for which J&J also manufactures medications. J&J also has a whole department that functions as a lobbying arm of the organization in Washington D. C. and also interacts

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[45] Italics in the original

with other foreign governments. We discussed evidence in Chapter 6 in which a high
ranking official of this department expressed that J&J is in,

> "Favor of government regulation that would force companies like ours to only
> put out those products in the market that are actually better than the existing
> products in the market. Lot of companies are not in favor of that because it
> raises the cost of your R&D and lowers your productivity."

So J&J through lobbying supports stakeholder oriented policies for the whole
industry.

We see the same indirect effort to spread the good word of proactive stakeholder
management by all of our mid-sized firms. KAF is a 100% employee owned organization
and is a member of state level bodies that create awareness in employees and companies
about employee ownership. KAF also supports a number of local and state level social
causes. GSB does the green audits for its clients and donates more than 80% of its
profits. Dansko also donates through its Foundation and is part of a number of local
causes. Other than the above few examples of the mid-sized firms in which they are
creating awareness, these firms, through the development of long-term mutually
beneficial relations with their vendors, suppliers, and other business partners, are also
leading by example.

We find the same trends in our small-sized organizations. Untours supports the
Fair Trade movement, and environmental awareness at the local level. It also has a
Foundation that gives small loans to small businesses. GS supports the motto of "triple
bottom line." It also creates t-shirts from organic cotton and supports local businesses.

In the indirect category we do have some additional direct evidence. This
evidence is based on comments that show that customers of the studied organizations
stay with them due to their value based business strategies. As discussed in earlier

chapters, interviewees from GS and KAF say that their customers are more like their company advocates. We also discussed the views of one of the GS owners who said that after NAFTA their customers are more loyal because they want to stick with the company, even in bad economy, because the customers like GS' organizational values. Untours' general manager said that customers who know Untours philanthropic work are more likely to give return business. Finally, GSB's owner said that there is customer retention based on GSB stands for and GSB also caters to a huge NGO market that wants to stay with GSB because of shared values.

In the direct influence category as we have already discussed J&J's Government Relations office puts direct pressure for legislation and policy change based on its view of how to serve patients.

In case of mid and small-sized organization the method of direct influence is even more interesting. All of these firms are members of the B-Lab and are B-Corporations. Through B-Lab these organizations have created a national forum for mid and small sized firms to get together and create laws that are more conducive to stakeholder management. It is well established in the US corporate law that the managers have fiduciary responsible to their shareholders (Boatright, 1994). But B-Corporations under the banner of B-Lab have campaigned to change laws so that the managers could take decisions not just to serve their shareholders but also their wider stakeholders. They have also pushed through state legislatures of Maryland and Vermont laws that give tax breaks to B-Corporations[46]. In all B-Lab now represents 422 corporations[47].

Normative Control

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[46] http://bcorporation.net/ retrieved on June 29th, 2011.
[47] Representing 54 industries and $1.93 Billion in revenues.

It is important at this point to introduce the concept of normative control and to clarify the importance of how a company's organizational culture strengthens its normative control. Gideon Kunda, in his 1992 book, *Engineering Culture: Control and Commitment in a High-Tech Organization*," discussed the effects of a strong culture and its link to normative control. He in turn drew upon a 1961 work by Amitai Etzioni,[48] to discuss a new trend in management towards strong organizational cultures that lead to "normative control." Based on Etzioni's study, Kunda defined normative control as an,

> "Attempt to elicit and direct the required efforts of members by controlling the underlying experiences, thoughts, and feelings that guide their actions. Under normative control, members act in the best interest of the company not because they are physically coerced, not purely from an instrumental concern with economic rewards and sanctions… they are driven by internal commitment, strong identification with company goals, and intrinsic satisfaction from work. These are elicited by a variety of managerial appeals, exhortations, and actions.

Normative control thus aims at a much deeper and more comprehensive form of control, one that imbues employees' basic beliefs and thinking processes.

As in Kunda's study, the organizations examined in this work have also consciously established and sustained strong organizational cultures. And in both studies we can find the importance of these cultures to the development of normative control. The attempt by the organizations in this study has been to get a better understanding of the intrinsic motivations of their employees and managers so that an employee-organization fit can be created.

In Chapter 7 we have discussed in detail the processes that lead to the creation of stakeholder organization. In all organizations in the study we discussed evidence that supported the fact that through specific policies, instruments, tools, rituals, and artifacts

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48 Etzioni, A., *A Comparative Analysis of Complex Organizations* (Free Press: New York,, 1961).

people were inculcated in the organizational culture. From the process of recruitment to assessment these organizations kept all organizational tools linked with their mission statements. We saw that in these organizations the process has been so successful that eventually employees have become the guardians of the organizational values.

Throughout in this work we have discussed on several occasions that the employees and managers of the studied organizations identify with their firms and its values. They feel pride in the fact that they are a part of these organizations. More importantly their motivation to work for their respective organizations largely comes from the fact that they believe and identify with the mission of their firms.

One important question at this point is that the normative control is certainly good for the organizations but is it also beneficial to the employees or are they just being manipulated? Kunda found that normative control was not solely a means of controlling employees. His study also noted that the normative control also benefitted the employees in various ways and the high-tech organization in Kund's study was not merely a controlling organization.

This study also supports the above findings. In all of the studied organizations there is clear evidence that employees are not seen in these firms as a cost but they are seen as assets. There have been incidents in all organizations of layoffs a fact that goes against the above finding. But we have also discussed the reasons behind those layoffs and the way they were done. Invariably all interviewees saw then as justified and all of them agreed, irrespective of the organization, that the layoffs were done in a humanistic way and the employees were treated with respect and dignity.

A large amount of evidence shows us that employees are treated as stakeholders in the studied firms. They have voice in these firms. They are involved in decision-making at different levels. Their long tenures suggest that they like to work in these organizations. Their opinion is valued and sought by the organizations and they have the right to critique their respective managements.

In short, the normative control in the studied organizations has helped them create an environment in which employees relate to the firm's goals, are intrinsically motivated, and feel pride in their work and organization. On the other hand, this normative control is not a manipulation but in fact a true attempt at creating person-organization fit.

Problems

The following section will take up stakeholder issues under two categories: specific issues faced by the studied organizations, and basic requirements of stakeholder management that makes proactive stakeholder orientation a difficult strategy to implement.

Issues in Specific Organizations

This section will take up negative factors in the organizations of our sample group. But before proceeding to that, it is helpful to put this into proper context. A large majority of interviewees from all organizations identified with their firm, liked it, and only very rarely were negative comments made about employers. The high retention, low turnover, and generally long-tenured staffs of these organizations all testify to this as well. There were no serious allegations by employees against these organizations. The negative features that were revealed in the course of research amounted to little more than suggestions of gaps or deficiencies in the implementation of stakeholder strategy.

Some negative factors arose as a byproduct of success. The most important common characteristic of the organizations studied here is their strong culture. The owners and top management, the instruments and policies that sustain these stakeholder cultures, all serve to create a very deep rooted culture. The negative side of such a strong culture, it is alleged, is that in some cases it can become difficult to change (Kotter & Heskett, 1992; & Heckscher, 2007). This can contribute to an overall inflexibility in these companies. A senior manager noticed this at J&J,

> "It is a very strong culture, and it is very deliberately being maintained by the top management, and it is through HR and other policies, and the issue with strong cultures always is, that they are not flexible."

Continuing with the same thought this same manager further pointed out another issue that following a list of stakeholders enumerated in the Credo limits the prospects of identifying other potential stakeholders that are not listed in the Credo,

> "It's a question that's been coming into my mind….you can have more stakeholders, what about seven, eight, nine, ten? It could be twenty. Why isn't anybody talking about it?

Another important issue that was observed at-J&J, KAF, and Dansko was the misimpression that a stakeholder approach should serve as an employee-satisfaction policy. This may stem from the fact that employees are the stakeholders with the most access to policy making. But to view Credo values chiefly as a means to satisfy employees is to lose sight of its entirety. As one J&J manager explained,

> "We've had bi-annual credo surveys…They were fascinating, because we asked employees how they thought the company was doing against the Credo, and that in itself would be a good thing to do, I think, but the so-called 'credo surveys' essentially become employee-satisfaction surveys."

This same phenomenon was observed at KAF and Dansko. This is particularly true at KAF, which is 100 percent employee-owned. KAF employees naturally regard

themselves as the most important stakeholders. At Dansko this feeling also existed to a certain extent. A senior manager at J&J pointed to another kind of shortcoming in the way that its company Credo has been used,

> "It's [using the Credo as a guiding principle] more of a vetting process, rather than building a culture of ethical-engagement of stakeholders, and that's what's missing from our culture…So it is useful to have that [Credo]. But you know that is not, that's not stakeholder-engagement, it's not involving stakeholders in making business decisions. It's more a set of principles against which you apply your decisions."

But along with the above comments this same manager applauded efforts by TT in reaching out to the HIV/AIDS community,

> "I think you see that emerging in cancer and a little bit in diagnostics….The cancer division of Johnson & Johnson that has the cancer drugs...has been very effective at learning from the AIDS community experiences, maybe faster than some of its competitors."

One other notable shortcoming at J&J is that although its culture is very strong, it does become somewhat diluted the further one goes from headquarters. This dilution does mean that J&J culture ever totally changes, but rather, that the previous cultures of acquired organizations, including in foreign countries where J&J operates, does have an impact. For example, a senior manager at J&J's office in India commented on the difference between the culture at his office and that at J&J headquarters,

> "I personally think the [India office] are not meeting what J&J/USA direction was. And what they are actually doing in India [is not] ten out of ten. They might be doing seven out of ten, but they are not doing ten out of ten."

The reason for the above can also be the fact that different positions and different offices have varied needs and demands. As pointed out by a senior manager that somebody in finance will also have a stakeholder list and in that list community will not have the same position as given in the Credo because the stakeholder list will be affected

by the job description. In a similar way, corporate cultures in different countries might also affect the overall transmission of organizational culture.

A Difficult Strategy to Implement

In view of the discussions in this and the previous chapters, we can safely conclude that as a business strategy stakeholder management provides solutions to a number of organizational challenges. However, stakeholder management is not an easy strategy to implement.

Our discussion, in Chapter 7 in the section on 'attitudinal changes,' has demonstrated just how difficult and tedious it can be to create proactive stakeholder cultures. This becomes even more problematic after it has been created as it must be sustained. In Chapter 7 we discussed in detail the specific needs of maintaining stakeholder culture. But with all the structures and the right attitudes there is always a need to re-establish, revamp, or reassert the culture with every successive generation of employees and managers. Our discussion in previous chapters indicates why a stakeholder process is slow – it requires dialogue, discussion and often consensus. But there are also other reasons as why stakeholder systems are difficult to incorporate in organizations. These systems require: constant surveillance of the environment in which organizations operate; developing communication apparatuses with stakeholders; and organizational structures that are flexible and can be changed with the changes in stakeholder demands.

Let us now discuss two examples involving J&J. In an earlier Chapter we discussed evidence that showed that J&J is a stakeholder organization that it fulfills the

requirements of a pro-active stakeholder organization. But even in its case on more than one occasion J&J had to face stakeholder related issues.

Box 8.5

Difficulties in pursuing a Proactive Stakeholder Strategy

- **Constant Surveillance**
-
- **Open and constant communication**
-
- **Elaborate structures**
-
- **Change in attitude**
-
- **Deep rooted cultural change**
-
- **Flexibility & adjustability**

In essence Proactive Stakeholder Strategy requires profound behavioral changes and the creation and maintenance of highly complicated systems

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The first example was discussed in detail in a book by Guillermo Grenier. In his book titled *"Inhuman Relations"* (1988), Grenier does a case study on one of J&J's subsidiaries Ethicon that manufactures sutures, needles, and ligatory clips in Albuquerque, New Mexico. The main argument of the book is that Ethicon introduced quality circles and team work to bust unions. Furthermore, these team structures were used to increase managerial control.

In his book, Grenier explains that J&J introduced team work in a number of its union plans in which union-management deals were used. But the most extensive team programs were initiated in two non-union plants situated in Texas and New Mexico.

These team based plants were supposed to be the new generation of plants. The first experiment was done in the Texas plant that turned out to be very successful in both production and employee satisfaction terms. The same strategy was applied in the Ethicon plant. The only difference was that at the time when this experiment was being conducted the Ethicon plant was also threatened by a union drive. Grenier argues that due to the union drive the team based efforts were turned into a union avoidance strategy.

Grenier gives substantial evidence that the Ethicon plant managers and consultants created a complete strategy to defeat the unions through team building. More importantly the strategy did not utilize legal methods. There were over 50 charges of unfair labor practices against the company that were later settled outside the court.

With all the negative evidence Grenier also says that Ethicon was also rated as the most attractive working environment in Albuquerque. The wages, benefits, and fringe benefits of Ethicon employees were the best in Albuquerque area. The benefits were so good that even the local university could not match medical and other benefits given by Ethicon. Grenier also states that J&J itself had a great reputation and Gen. Johnson was in fact genuinely interested in employee welfare.

The question is that how the above story affects our findings about J&J?

A pertinent point here is that the main argument in the book is beyond the purview of this work—i.e. use of teams as a tool for union avoidance. That being said employees are stakeholders and as explained in the book they were treated shabbily by Ethicon, especially, the ones that wanted unionization.

It is quite difficult to assess what happened in the above situation. The only plausible course is to put forth some balanced surmises. First, the era is the early 80s,

which is a time of anti-union sentiment in the US under the Reagan administration. Second, the experiment in Ethicon followed the Texas experiment that was very successful. But at the same time Ethicon was also under the threat of a union drive. It is quite possible that the Ethicon management got anxious due to the union drive and used teams to break it. It must be understood that in stakeholder management managers do have a special position as implementers of stakeholder strategy. If they don't understand it or don't use it well the whole strategy can fail. Third, the writer does agree that Ethicon was a good company as far as pays and benefits are concerned. Therefore, it is possible that the management did really think that unions would create disruptions and unnecessary antagonism.

Fourth, Grenier also tells us that the team strategy was also introduced in many unionized plants and in those plants unions and management worked in worker-management teams. Furthermore this experiment also worked in the non-union plant in Texas. The mismanagement at the Albuquerque plant could have been an isolated incident and not a blot on all of J&J's companies and holdings. Finally, we know from our interviews that J&J started its Credo Dialogue in the mid 80s, may be this biennial practice was initiated due to incidents like Ethicon.

The second example is the recent Tylenol scandal. If we compare how J&J handled this recent instance of recalling Tylenol with its recall of this product in the 1980s, major differences become evident.

In the earlier instance J&J's handling of the issue remains a textbook case of ethical business conduct. The incident happened when in the early 80s J&J product Tylenol, manufactured by a J&J subsidiary in Pennsylvania McNeil Consumer

Healthcare, was laced with cyanide by some terrorists. In this particular situation, though it was not J&J's fault but all Tylenol was recalled from all stores at a heavy cost to the company, as explained by senior government relations officer,

> "We knew that the only safe answer was to pull every bottle of Tylenol off the shelves even though the cost was enormous."

Another senior manager also told that in the local areas of New Brunswick and cities in New Jersey J&J gave cash to its employees to buy all available bottles of Tylenol directly from the stores and pharmacies. J&J's conduct in this recall was so exemplary that it is used as a tool to inculcate cultural values and to stress the importance of J&J's Credo while training employees, as informed by one of the employees.

In the more recent instance, which arose in 2009, there were many accusations of cover up, kickbacks, misinformation and mismanagement. The whole incident started when J&J announced a voluntary recall of liquid pediatric Tylenol, Motrin, Benadryl, and Zyrtec. These products were manufactured in a plant in Pennsylvania[49]. The reason for the recall was that it was found that there were metal particles in these product and some active and inactive drug ingredients that did not meet F. D. A. standards. Since this recall J&J has had several other recalls of the mentioned drugs specially Tylenol.

These recalls led to the initiation of a Congressional investigation into the matter. Product defects are, of course, an important issue but J&J got into more trouble as it was accused by the Congressional Committee[50] that J&J is: thwarting the process of investigation; lying to the Committee regarding the volume of recall; hiding the fact that it knew the defects much earlier and tried to solve the problem through "phantom

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[49] http://query.nytimes.com/gst/fullpage.html?res=9807EFD71F3BF932A25755C0A9669D8B63 retrieved on June 28th, 2011
[50] *ibid*

recalls"[51]; and in general trying to cover up the whole incident. The J&J Worldwide Chairman of Consumer Group also gave testimony before the Committee in which J&J admitted that there were lapses on J&J's part as far as the quality of the products is concerned.

It is perhaps too early to ascertain what was behind the recent Tylenol scandal. The subsidiary in question had been acquired by J&J in 1959 and since then had maintained a very high level of profits and products. This subsidiary had also managed the Tylenol issues that arose in the 1980s very well.

In the preceding section we were discussing some negative evidence against proactive stakeholder management specific to the organizations under study. There were a few interesting points regarding J&J that might throw some light on what might have happened in the recent Tylenol incident. It is possible that the Credo has become more of an employee satisfaction survey or it has become more like a vetting standard to assess behavior but not to develop proactive behavior. Finally, the force or the centrality of the Credo can get diluted as we travel further away from the J&J headquarters to its subsidiaries or its overseas offices.

Considering the above we can surmise that one major reason for the mishandling of the recent Tylenol case could be that the J&J's present leadership may have lost touch with the real purpose of the Credo. The real purpose as understood from General Johnson's writings was to create some guiding principles for conducting business. These principles, can of course, be used to vet current business decisions but it would seem that, to some extent, vetting has inadvertently become the main purpose of the Credo.

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[51] "Phantom recall" refers to J&J's alleged recall through contractors in 2009. The Congressional Committee believed that the recall was a covert attempt to get the product, in this case Motrin, off the shelves without declaring a general announced recall that could hurt the J&J's reputation.

Secondly, if the Credo values get diluted because of distance from the headquarters then it is also probable that the same dilution might happen due to the passage of time and due to the induction of new leadership into the higher ranks of the organization.

Cultural and structural dilution has been found by organizational researchers. Baron, Hannan, and Burton (1999) while studying high-tech organizations covered five employment models—engineering, star, commitment, bureaucracy, and autocracy—and dimensions of employment relations—attachment, selection, and coordination/control. The found that in the six years of their study these organizations moved away from their initial employment models, set by their founders, and became bureaucratic. But on their initial models these firms had different trajectories of bureaucratic structural development. The scholars concluded that the initial models instituted by the founders have deep-seated effects on subsequent development in administrative structures. The dilution in J&J's Credo values can also be caused by the development of more bureaucratic culture or structures. But in the final analysis, without data to support our claim in this work, we would agree with Baron, Hannan, and Burton (1999) that the initial employment models will not make proactive stakeholder organizations as intensely bureaucratic as an organization with an initial control based model.

All of the above issues basically point out to the need for better communication. The real purpose of the Credo and the perpetuation of Credo values form one generation of managers to the next can be achieved if at all levels Credo values are comprehensively conveyed. There is a possibility that in the last few years this communication was not done adequately in J&J, which might have lead to an inadvertent misunderstanding of the true purpose of the Credo. This problem was also pointed out by a very senior J&J

manager who commented that there was need for more comprehensive Credo dialogues so that all can understand its principles and utility.

Another related issue could be that the instruments that assess Credo performance of J&J need to be updated as well. The most important instrument in this regard is the Credo Survey that J&J has been conducting for almost 25 years. The survey is an opportunity for J&J to get feedback from the employees as to its performance with regards to its Credo values. One interesting aspect that came to light in the interviews was that this survey has been recently updated after 25 years. This might not be a main problem but it does indicate that an important instrument that assesses J&J's credo performance was not updated according to the changing times. Obviously, business environment in general and pharmaceutical industry in particular has changed tremendously in the last 25 years.

Lastly, though not generally agreed to by the top management there might also be a need to further evolve the Credo. One recent example of updating values in a large multi-national is the "value Jam" done by IBM to recreate its organizational values.

In sum, the above example highlights the fact that proactive stakeholder management is a difficult strategy to implement. It requires constant surveillance, open and constant communication through elaborate communication structures, altering the traditional view about organizations and their place in the business environment, and deep-rooted cultural changes that need to be kept relevant with the changing environment and also need to be transmitted to new generations of managers and employees. Stakeholder management requires organizations to be flexible and adjustable. All of the above reiterates the fact that a lot issues in stakeholder management arise due to the

complexity of the system. But here one germane aspect is that the business environment has become intricate and complicated, therefore, to survive and make sense of this environment a complicated system is essential.

Concluding Remarks

This chapter has been an attempt to remove the ambiguity in the efficacy of proactive stakeholder strategy. We discussed in the literature review that when it comes to the achievement of organizational goals the combined results of empirical studies confound us. Some studies prove the success of stakeholder strategy and some don't. In most cases these studies are looking at financial gains. We discussed that the purpose of this work is not to see if stakeholder strategy leads to financial success but to assess its relational and long-term benefits. The reason for this choice is that one financial success is a combination of many variables and it is almost impossible to attach it to one strategy. Secondly, stakeholder is a long-term strategy and, therefore, we cannot assess its success in terms of short-term financial gains.

Another purpose of this chapter was to stress on the instrumental efficacy of the strategy and not the normative one, though a number of organizational benefits are derived from the normative values of the studied firms. As discussed the reason for this is that this work is an attempt to make an instrumental and business case for proactive stakeholder orientation.

We have divided our discussion on organizational benefits in two main sections: benefits for individual organizations; and derived benefits from the proactive stakeholder strategy. In our discussion of individual organizational benefits we have established that besides some variations in the level or intensity of a particular benefit all benefits are

common to all the studied organizations. An important fact that we have established in our discussion is that proactive stakeholder strategy can be a viable business strategy. Organizations in our sample have applied stakeholder strategy because they see that such a strategy would benefit them as a business enterprise. The strategy, as we have discussed, is successful in our studied organizations. Our studied firms are not only successful but they also use their values as a differentiator from their competitors. The strategy is also successful as today there is a larger market for values based business.

The above conclusion only tells us that proactive stakeholder strategy can be a viable business strategy. This finding is important as in the previous empirical research this was not a well established empirical finding. There was confusion as to the viability of stakeholder strategy let alone the viability of proactive stakeholder strategy.

Other commonalities in relational and business benefits among the studied organizations are that proactive stakeholder strategy based on organizational values creates: customer loyalty; employee loyalty; employee pride in the organization; positive reputation and benefits of trust accrued form goodwill; and capacity for better decision-making.

In the derived benefits the most important benefit was that by their very nature proactive stakeholder organizations become capable of "double loop learning." In proactive stakeholder organizations the main strategy is to keep a finger on the pulse of the most important constituents in its environment—i.e. stakeholders. Stakeholder configurations and demands change all the time thus making it imperative for proactive stakeholder firms to be flexible and innovative and to be able to adapt quickly to changing circumstances. Therefore, by its very definition proactive organizations should

be able to change their policies and underlying principles based on the changing interests of their stakeholders and this is only possible if they have the capability of "double-loop learning."

Proactive stakeholder strategy also helps organizations in developing effective communication channels and improves managerial behavior by increasing managerial understanding of the business environment. This happens by making the managers understand a systemic view of the firm and creating the awareness to the fact that in modern business environment collaborative approach to business decision-making is a better strategy (Gary, 1989).

We have also observed that in our sample the studied organizations have developed awareness to value based and stakeholder business strategies. They are achieving this through direct actions as in the case of B-Corporations. But this awareness is also being created through a number of indirect actions like supporting local causes, donating nationally and internationally, advocating sustainable business practices, and most importantly by voluntarily creating successful, flourishing, and economically viable value based businesses in a bad economy.

Finally, through normative control these firms have been able to create an environment in which employees relate to the firm goals with pride and are intrinsically motivated to do better. This normative control is not manipulative but is an attempt at assimilating employee values and organizational values.

Coming to the issues our analysis is divided into two sections: organizational specific problems and implementation problems. In our discussion on the organization specific problems we have seen that there are very few issues. Not only that most of the

existing issues can be removed by better implementation of the policy, therefore, as such there are no conceptual problems in the proactive stakeholder strategy.

We also discussed that the cultures in these organizations are very strong and might make them less flexible. In strong cultures organizational rigidity is a possibility but we must also keep in mind that the core principle on which these organizations are created makes these firms flexible. The strong culture is not based on rigid principles but in fact it is based on the ever changing principle of stakeholder interests. So these organizations represent strong stakeholder cultures that assume flexibility and adaptability.

Finally, stakeholder strategy is a difficult strategy to implement that requires: constant surveillance for new stakeholders; constant dialogue; altering positions and policies; adaptability and flexibility; and constant effort to inculcate organizational values. We discussed the recent Tylenol issue to substantiate the above point. In sum it is a difficult strategy to implement so a number of issues are created due to the requirement of tedious and complicated systems.

The bottom line is that the stakeholder strategy provides one viable business strategy. It gives solutions to managers and organizations to survive in a volatile business environment. Finally, the difficulties and issues related to stakeholder strategy are more because of its implementation gaps by the firms and not because of any conceptual issues in the strategy itself.

Chapter 9: Conclusion

Research Questions and Existing Research

The overall argument of this work is that proactively stakeholder organizations create structures and mechanisms that lead to consensus building and mutual benefits for organizations and their stakeholders. But more specifically we intend to explore four areas of proactive stakeholder management: Who are proactive stakeholder organizations? What are the dynamics of stakeholder management? How are stakeholder organizations created and perpetuated? And what are the relational and strategic benefits of proactive stakeholder management?

In the first question we are interested in understanding organizational features, policies, and structures that support a distinct proactive stakeholder management strategy. The empirical literature discussed in Chapter 3, covers three broad areas in this category: importance of stakeholder theory; descriptive validity of the theory; and organization specific structures and policies. Out of the three categories 'organizational specific structures' are directly related to our first research question, but we will also discuss evidence from the other two categories as they demarcate the descriptive basis of stakeholder theory, which is one of the major contributions of this work.

We have discussed stakeholder theory's importance in detail in Chapter 1. In our discussion in Chapter 1, we tried to answer the question: Why do we need to promote stakeholder theory in the presence of seemingly similar concepts like Corporate Social Responsibility, Corporate Social Responsiveness, and Corporate Social Performance. We concluded that the stakeholder theory brings parsimonious understanding of organizational interaction with organizational stakeholders and, more importantly, with

societal stakeholders. The empirical evidence of this conclusion came from Clarkson (1995), who at the end of a 10 year long study concluded that managers actually do not interact with the community. The community is an amorphous body; therefore, managers interact with particular stakeholders within the community. In sum, CSR I & II, and CSP take a broad and all inclusive meaning of social responsibility, while stakeholder theory brings precision to the concept.

The discussed empirical works in the 'descriptive validity' category further consolidate the relevance and need for the stakeholder theory by give evidence that organizations actually do perform stakeholder management. Several works were discussed that supported the significance of stakeholder theory: stakeholder management has become a major concern with organizations (Verschoor, 1998); organizations try to manage stakeholders by creating a balance between stakeholder and organizational needs (Greenely & Foxall, 1997; Ogden & Watson, 1999); firms are greatly affected by outside pressures (Berman *et al*, 1999; Louma & Goldstein, 1999; Weaver, Trevini, & Cochran, 1999); and stakeholders can influence organizations in several ways (Kassins & Vafeas, 1997; & Pajunen, 2006). In sum, there is sufficient evidence showing that organizations do recognize the importance of stakeholders, try to manage stakeholder interests, and also get influenced by them.

The third category relates to organization specific policies, instruments, and structures. As pointed out in Chapter 3 there is very little work available on the idiosyncratic variables of stakeholder organizations and there is almost no work that addresses proactive stakeholder organizations. However, there is one work—i.e. Kotter & Heskett, 1992-- that discusses 'culture' as an important idiosyncratic variable in

stakeholder organizations. Kotter & Heskett (1992) find that stakeholder organizational culture makes organizations flexible and adaptable and leads to superior firm performance.

The previous discussion has given evidence that organizations are: centers of multiple interests representing numerous stakeholders; affected by stakeholders; and in recognition of these facts interacting and negotiating with their stakeholders. The above leads us to our second research question in which we are interested in understanding: How do managers decide which stakeholders are important in a specific situation? How do managers interact with stakeholders on a regular basis? And how a balance between organizational and stakeholder interests is achieved?

There has been considerable empirical work that delves in to the question of how to recognize stakeholders. One characteristic that has come out to be the most important stakeholder feature is the power or influence of stakeholders over organizations. Harrison & St. Caron (1996) find that political and economic power is important for stakeholders. Greenley & Foxall (1997) also find "power" as the most important feature of stakeholders. Other scholars confirm the importance of power but add to it other features like: urgency & legitimacy (Agle, Mitchell, & Sonnenfeld, 1999); provision of critical resources & linking of stakeholder assets with the organization's success or failure (Kochan & Rubinstein, 2000); and resource dependence, and network position of stakeholders and organizations (Pajunen, 2006). The main point is that in most cases stakeholder features are researched from the point of view of the intrinsic stakeholder model that represents a firm centric view of stakeholder theory. Additionally, the existing research shows "power" of stakeholders over the firms in direct or indirect forms—

influence, resource dependence, and network position—is the most important stakeholder characteristic.

Empirical research in the area of organization-stakeholder interaction is also well developed and a number of themes have been covered by scholars. Scholars have given credence to proactive stakeholder management by finding that organizations in the present environment need to be proactively stakeholder oriented (Harrison & St. Caron, 1996; Silanpaa, 1998). Some have found that external stakeholders have a greater influence over organizations, like: institutional investors (Johnson & Greening); regulatory bodies (Ogden & Watson, 1999); environmental factors (Greenley & Foxall, 1999); and institutional influences (Louma & Goldstein, 1999; Kochan & Rubinstein, 2000; Kassins & Vafeas, 2002). While others have found that greater influence comes from internal stakeholders, e.g., top management (Weaver, Trevino, & Cochran, 1999).

In the actual interactions scholars have found that trust, communication, and openness are important ingredients in developing good stakeholder relations (Strong, Ringer, & Taylor, 2001; & Drew *et al*, 2003). Ogden & Watson (1999) find that stakeholder interests can be balanced with the help of regulatory bodies. Finally, Silanpaa (1998) finds that greater inclusion of stakeholders leads to improved relations between stakeholders and the firm.

In sum, in the interactional category there is evidence that proactive stakeholder orientation is important in today's business environment. There are some opposing findings with regards to the question of what has greater influence over firms—i.e. internal as opposed to external factors. Finally, there is evidence that trust is important in

the relationship and inclusion based on communication and trust develops better stakeholder and firm relations.

The final research question is about the instrumentality of proactive stakeholder strategy. Here we are interested in understanding the benefits of stakeholder management in achieving organizational goals. In this regard we are looking at relational benefits rather than financial benefits. The reason, as discussed in other chapters, is that stakeholder management is a long-term relational policy. Therefore, it would be difficult to assign a dollar amount to its overall benefits.

A significant amount of research has been conducted to unravel the instrumentality of stakeholder theory. But, as discussed in Chapter 3, there is an absence of incontrovertible evidence that shows that stakeholder management is beneficial for organizations. Some scholars have found no relationship between stakeholder strategy and firm performance (Meznar, High, & Kwok, 1994; & Movena, Rivera-Lirio, & Munoz-Torres, 2007); others say that there is no negative relationship between stakeholder strategy and firm performance (Omran *et al*, 2002). On the other hand, there is research that finds positive relationship between intrinsic or firm centric stakeholder management and firm performance (Berman et al, 1999; Ogden & Watson, 1999; Agle, Mitchell, & Sonnenfeld, 1999; Rubinstein & Kochan, 2000; Hillman & Keim, 2000; & Bartakus, 2006). In sum, there is not much clarity as to the benefits of stakeholder management. However, there are two consistent findings: there are no negative effects of stakeholder management; and firm centric stakeholder models have positive effects on firm performance.

Study Findings

In this section we will discuss our findings. These findings have been discussed in detail in Chapters 6, 7, & 8.

Proactive Organizational features: In Chapter 6 we discussed the idiosyncratic proactive stakeholder features of all the studied firms and analyzed similarities and differences between their features.

- Proactive stakeholder firms have specific policies and structures to elicit internal stakeholder opinion and to involve them in internal decision-making. In J&J's case employee opinions are sought for three reasons: assessment of J&J's performance by its employees; involvement of internal stakeholders in decision-making; and development of managerial tools to improve leadership with the help of employee input. In mid & small-sized firms, just like J&J, employee opinion was valued and taken seriously. All organizations, irrespective of size, have created an environment of autonomy, open communication, trust, dignity and respect for the employees.

- In case of the external stakeholders in its general strategy, J&J fits the profile of a proactive stakeholder organization as it's the studied subsidiary engages in the following behaviors: it generally wants to develop long-term mutually beneficial relations with its business stakeholders, it is involved in philanthropic work locally, nationally, and internationally; it surveys the business environment for potential stakeholders; and it reaches out to the identified stakeholders and engages them in organizational decision-making processes. In case of the mid and small-sized firms we conclude that they show different dynamics when it comes to external stakeholders. All of the smaller firms are engaged in philanthropic

work locally, and nationally. They are also engaged with their business stakeholders e.g. vendors, suppliers, and manufacturers etc. and tend to develop long-term mutually beneficial relationship with them. However, the smaller firms in the study do not really engage external stakeholders in their decision-making processes, except GSB that engages external stakeholders in its philanthropic decision-making. For this reason the mid and small sized firms are categorized between 'accommodative' and 'proactive categories'.

- The difference of engagement with regard to external stakeholders can be due to the small size and less impact of the smaller firms. This being said, the smaller firms have overcome the disadvantage of size by becoming the members of B-Lab and engaging with external stakeholders to affect changes in local and state laws. In sum, the smaller organizations do seem to understand the importance of external stakeholders and institutions.

- Based on the intensity of stakeholder management this work finds a relationship between stakeholder engagement and organizational stakeholder orientation. We have found a positive relationship between higher levels of stakeholder engagement with higher levels of proactive stakeholder orientation. We have further found that in our sample J&J can be categorized as "*proactive stakeholder*" organization, while all others can be categorized as "*accommodative-proactive,*" with the exception of GSB, which is "*proactive-accommodative.*"

Stakeholder characteristics: In Chapter 6, we also discussed important stakeholder features. It was found that there are two categories of stakeholder characteristics: fixed and dynamic.

- In the fixed category it was found that there are two sources of guidance: leadership views, and organizational mission statements. It was found that the owners or the top leadership of the firm enumerate a list of certain organizational stakeholders for the managerial guidance. The views of the top management also manifested in the mission statement of individual firms. To give one example, J&J's Credo is based on the views given by its owners in the 1930s and the Credo enumerates organizational stakeholders in order of preference: customers/patients, employees, community, and shareholders.

- The study has found that there are three important dynamic stakeholder characteristics: organization on the part of stakeholders, social acceptance/legitimacy of the claim, power/influence of the stakeholders over the firm, and value added by the stakeholders to organizational decision-making.

- Furthermore, it has been found in this case that "power/influence" has not turned out to be the most important stakeholder feature, while organization has been found to be the most important stakeholder feature in the studied firms. This finding goes against existing research that finds "power" to be the most important stakeholder feature. The reason, as discussed, in Chapter 6, could be that most of the existing empirical works are survey based that include all types of firms—i.e. stakeholder and non-stakeholder—in their surveys. The present work, on the other hand, is a qualitative study that only includes declared stakeholder firms;

therefore, it is possible that for these firms "power" is not the most important stakeholder feature.

- The fixed and dynamic features do not represent dichotomous standards of recognizing stakeholders. It was found that the fixed features give a stable core around which the dynamic features exist and provide the concept of stakeholder management its much needed flexibility.

Conflict resolution and interaction: Finally, in Chapter 6, we discussed how proactive stakeholder firms and their managers interact with stakeholders and resolve conflicts between organizational and stakeholder interests.

- We conclude that at different levels all organizations in our sample try to resolve issues through stakeholder involvement. We have found several common features in all of our sample organizations. These organizations represent a different way of looking at issues and problems relating to stakeholders. All of them stress on building long-term relations with all stakeholders based on discussion, consensus and arriving at win-win solutions. Another important similarity is that in essence these organizations revert to their mission statements and core principles to resolve more persistent issues and complicated conflicts of interest.

Cultural features: In Chapter 7 we discussed specific cultural features of the studied organizations. There were some commonalities between this section and the section in Chapter 6 where we discussed proactive stakeholder features. But this section primarily focuses on internal organizational features as seen by the employees.

- We established that all of the studied organizations are value based firms. This means that organizational actions are guided by organizational stakeholder values given in the mission statements.

- There are a number of internal cultural features common to all organizations in our sample, they are: internal autonomy, transparency, team-work, voice for the employees, consensus driven decision-making, win-win solutions, long-term relations and orientation, a positive view of human nature, wider goals for business firms, and flexibility.

- Finally, we have also established that these organizations do not see any conflict in being value based proactive stakeholder organizations and competitive businesses.

Initiation of organizational culture: In our discussion on the creation of proactive stakeholder cultures, in Chapter 7, we delve into the question of how these cultures are initiated.

- We conclude that in all of our studied organizations the cultural tone was set by the early or present owners. The only difference between all of our studied organizations is that in J&J, being a much older and larger organization, the inculcation of culture from the owners is indirect—through the top management, mission statement, artifacts, instruments, legends, and stories—while in case of the smaller organizations this acculturation is more direct.

Maintenance & perpetuation of culture: After initiation of culture we also discussed how these proactive stakeholder cultures are maintained and perpetuated from

generation to generation of managers and employees and, in case of J&J, efforts are made to pass it on to other acquired units and businesses.

- A major finding in this regard is that all artifacts, policies, and instruments to maintain and perpetuate stakeholder cultures support each other and are interconnected. The core is the value system propounded by the owners and expressed in organizational mission statements. Then, around these mission statements a comprehensive edifice is created to maintain a specific organizational culture. For example, in J&J the Credo sets the main principles around which a whole organization is created through mutually supportive instruments, policies, and HR functions like: training, assessment, recruitment, transparency, open dialogue, autonomy, right to criticize without retaliation, and organizational encouragement to develop long-term relations.

- With all of the above variables to maintain and perpetuate culture we have also found the phenomenon of "dual pressure" in the studied organizations. Dual pressure is created when the studied organizations are able to create a person-organization fit that leads to the assimilation of organizational values with those of the employees. This close similarity of values, supported by the fact that in the studied organizations there is no retaliation against employees if they criticize managerial decisions, especially if those decisions are not in accordance to the overall organizational values.

- We have also found that the creation of proactive stakeholder organizations require a deep attitudinal change in the way managers think and operate. Proactive stakeholder strategy should not be treated as a passing trend. To

establish proactive stakeholder organizations the management should attain the capabilities of flexibility, adaptability, and most importantly the aptitude for "double loop learning."

Benefits of Proactive Stakeholder Management: Finally, we come to the instrumental aspect of proactive stakeholder theory. Our benefits are divided into two categories: first, organization specific benefits; second, derived benefits.

- Proactive stakeholder strategy across all organizations is generally a beneficial strategy. In terms of the relationship to stakeholders, on the face of it, the organizations in our sample are not only successful businesses but they also use their values as a differentiator from their competitors. The bottom line is that proactive stakeholders can contribute to a viable and successful business model.

- All organizations in our sample have common relational benefits from their proactive strategy like: customer loyalty, employee loyalty, and employee pride in the organization, less turnover, reputational benefits; and improved decision-making.

- The first derived benefit is that organizations with proactive stakeholder strategy can become capable of "double loop learning." These organizations by their very nature have to be flexible and adaptive, which in today's business environment can be the source of competitive advantage.

- The second derived benefit comes in the shape of structural development and increased understanding of the business environment. In the case studies, J&J has already developed a number of instruments and procedures to improve communication with internal and external stakeholders. While smaller

organizations, as they grow, are developing elaborate stakeholder engagement structures and getting more sophisticated. Additionally, keeping a finger on the pulse of the important stakeholders keeps the managers cognizant of their environment.

- We have found that the studied organizations, through their direct and indirect actions, create wider awareness in customers, and generally in the society, of value based stakeholder business strategies. In a way they are creating more acceptance of this strategy and informing communities that there is a way to conduct business with a sustainable balanced strategy.

- Finally, the studied organizations have, through normative control, created an environment in which employees relate to firm goals and take pride in their work, but at the same time, this control is not manipulative and the employees gain several benefits from organizational proactive stakeholder strategy. These include: self respect, autonomy, voice, fair treatment, pride in their work and organization, and a sense of fulfillment.

Issues with the strategy: In the final analysis we have also found some issues with proactive stakeholder strategy.

- We have also found that proactive stakeholder management is a very difficult strategy to implement. Therefore, in the studied organizations, there were some issues that resulted from the complicated nature of the strategy. The strategy requires constant attention and surveillance. It demands changes in managerial attitudes and thinking about business organizations in a different way. It requires open and constant communication with stakeholders. It requires managerial and

organizational comfort with flexibility and adaptability, and constant changing of positions. And most importantly, it requires engaging stakeholders in decision-making processes and delegation of managerial prerogative. All of the above make proactive stakeholder strategy a difficult strategy to implement and sustain.

Contribution

Donaldson and Preston (1995) said that "the stakeholder theory has been advanced and justified in the management literature on the basis of its descriptive accuracy, instrumental power, and normative validity."Primarily, this work has been an attempt at establishing the descriptive truth and instrumental relevance of the theory. The work has also been an attempt at reconciling, in a rudimentary sense, the three analytical categories of stakeholder theory.

An important question is that why we are putting so much stress only on descriptive and instrumental aspects of stakeholder theory? The reason for the emphasis on descriptive aspect of stakeholder theory, as already discussed elsewhere, is that, first it is the least explored aspect of stakeholder theory and we also agree with Jones & Wicks (1999) that better understanding and analysis of the descriptive stakeholder theory would not only create research possibilities but will also establish stakeholder theory as one of the major organizational theories. On the other hand, the emphasis on instrumental aspect of stakeholder theory is based on the need to delink stakeholder management from short-term financial benefits and elucidate its relational benefits.

Based on our rather unique research interests the methodological choices have also been distinctive.

In the following sections we will discuss the contribution of our work to empirical research, theory, and methodology.

Research Contribution: The most substantial contribution of this work has been in the descriptive category of stakeholder theory. First, we have advanced understanding of stakeholder management by not just looking at stakeholder organizations, which by definition any organization can be termed as one, but by analyzing proactive stakeholder organizations. Our argument is that in today's business environment organizations need to be proactively stakeholder oriented to reap full benefits of stakeholder management. That is why we have concentrated on only proactive stakeholder organizations and have found that proactive stakeholder management can indeed be a viable and sustainable business strategy.

Second, we have improved our understanding concerning different stakeholder orientations—i.e. reactive, defensive, accommodative, and proactive—and their link with intensity of stakeholder engagement as practiced by organizations. We have found that there is a positive relationship between the two categories, which means that as you increase stakeholder engagement the firms move from reactive—the lowest level on the scale—to proactive—the highest level on the scale.

Third, we have enumerated definitive features of proactive stakeholder organizations. In previous research no work has outlined the organizational features of proactive stakeholder firms.

Fourth, we have tried to reduce the confusion regarding salient stakeholder features. Previous research had established some stakeholder features with 'power' as the most important one. Our research points out that for proactive stakeholder organizations

'power' is not the most important feature as by virtue of their orientation these firms do not include stakeholders when they have become powerful but they anticipate their rise and potential for becoming a stakeholder. Fifth, we have also found that there are two sources of stakeholder features: fixed and dynamic. Previous works had only laid down dome dynamic principles to recognize stakeholders. Our findings tell us that there is stability and dynamism in the process of stakeholder recognition. The stability and consistency comes from the views of the leadership and the mission statement, while the necessary dynamism comes from features like: organization, legitimacy/social acceptance, value adding, and power.

Sixth, we have also developed our understanding of how organizations and managers interact with stakeholders. Stakeholder management requires the ability on the part of the organizations to find solutions that are acceptable to all. The foremost requirement is to balance stakeholder and organizational interests. Our contribution isthat we have studied and analyzed the dynamics of stakeholder management in their entirety and within their social and organizational contexts. We have shown that communication, discussion, trust, alignment of interests, has a very important place in proactive stakeholder management. We have further found that the main interest of the studied firms is to reach win-win solutions through the time and effort of developing long-term relations with their stakeholders.

Seventh, a major contribution of this work is the description of how proactive stakeholder organizations are initiated, created, and maintained. In this regard there is almost no work that describes the internal structures that create and maintain a stakeholder organization. We have tried to give a complete picture of several cohesive,

interlinked, and mutually supportive policies, processes, attitudes, and structures that contribute to the conception and perpetuation of proactive stakeholder organizations.

Eight, coming to the instrumental category another contribution of this work is that we have found that proactive stakeholder strategy can be a viable business strategy to build constructive relationships with stakeholders that help the company's business. In previous research, as discussed in Chapter 3, there was quite a bit of confusion regarding the instrumental validity of the theory. We have found that sustainable business practices like: proactive stakeholder management, involving stakeholders in business decisions, engaging them in dialogues, and trying to find win-win balanced solution to stakeholder and organizational issues are not fluffy, impractical, and unsustainable business strategies. They are in fact sources of differentiation and represent practical approach to business in the current environment.

Ninth, we have also found a number of direct and derived benefits of proactive stakeholder management. Some of these benefits have been discussed by other scholars in their previous works, but we have found some additional benefits like: improved decision-making, learning organizations, creating a market for virtue, normative control, and behavioral and structural benefits.

Finally, as per our promise in the earlier chapters, we have tried to have a look at proactive stakeholder management in its social context. We have tried to provide a complete picture with its myriad facets. The attempt has been to understand the stakeholder phenomenon in its entirety. For once the stakeholder phenomenon has not been divided into small buckets of analytical categories that in their final analysis confound our understanding about the phenomenon as a whole.

Contribution to methods: As already pointed out the uniqueness of our research interests have required us to develop a singular methodology for the present work. The uniqueness of our methodology lies in the fact that it is the first qualitative, inductive, multiple case study in the field of stakeholder management. To maintain the reliability of this work, a comprehensive methods section was created that explains the reason for methodological choices and the ways in which the overall quality of the research was maintained.

Contribution to theory: In Chapter 3 we argued that the extant empirical work fails to present a comprehensive picture of stakeholder management. We concluded that: stakeholder theory lacks in empirical works; little is known about the overall stakeholder phenomenon; and finally, few definitive hypotheses exist in stakeholder theory. These conclusions led us to the argument that stakeholder theory requires refining of hypotheses through theoretical development. We further argued that theory development is an incremental exercise and in stakeholder theory this development has reached a point where we need to understand the whole phenomenon in its social context.

In sum, one promise of this work was that it will hopefully further the cause of developing theory in the studied field.

In Chapter 2 we gave our preliminary *'Unified Proactive Stakeholder Model'*. In this model we tried to bridge the gap between the normative, descriptive, and instrumental stakeholder categories. We also identified that theoretically the most challenging problem faced by stakeholder theory is the reconciliation of these analytical categories.

We argued in this model that societal or stakeholder norms can be imposed on organizations through concerted action by concerned groups within the society. Through organization, societal entities and groups, who are also organizational stakeholders, can make the organizations aware of legitimate social needs and thus impose societal on organizational norms. We further argued that our model based on the stakeholder characteristic of 'organization' will also bring the descriptive and normative categories closer. For example, proactive stakeholder organizations survey their business environment to look for potential stakeholders, and will notice stakeholders that are organized and have social acceptance. Finally, we argued that our model also unifies instrumental with the normative. Proactive organizations by keeping in view the legitimate claims of the society involve groups from the society in their decision-making. This practice creates long-term trusted relations between organizations and their stakeholders eventually resulting in goodwill benefits.

The above model, discussed in detail in Chapter 2, was a preliminary model. It was indicated in Chapter 2 that the final model will be given in Chapter 9 and will be based on those parts of the theoretical model that have been supported by our data. Based on our discussions in Chapters 6, 7, & 8, we propose the following final model (Figure 9.1).

Limitations

The work, however, has several limitations. First, this is a qualitative inductive study and by its very nature this study is not generalizeable like survey based statistical works. It does aim to generalize theory but not statistical incidence. Second, due to paucity of time and resources there is not enough data on external stakeholders. In case of

the five smaller organizations no business stakeholders like vendors, and suppliers etc. have been interviewed. In case of J&J/TT mostly NGOs or philanthropic foundations have been covered. The ATAC - though gives us a very important example of how J&J/TT involve external stakeholders in decision-making - is not a business partner or stakeholder. Third, only one J&J subsidiary has been covered. Resultantly, the findings cannot be generalized to all J&J subsidiaries. Fourth, most importantly, there is no possibility of comparing proactive with defensive and reactive stakeholder orientations. We have covered organizations that lie between accommodative and proactive but the lack of comparative data does limit our results in the sense that we cannot claim that proactive is the most effective orientation.

Figure 9.1: A Unified Proactive Stakeholder Model

Creation & Perpetuation   **Stakeholder Dynamics**   **Benefits**

Creation & Perpetuation	Stakeholder Dynamics	Benefits
Proactive stakeholder organizations are initiated and created by their owners, based on their values and worldviews	Once proactive organizations are created they exhibit certain features: They constantly survey their environment	Proactive stakeholder management can be a viable business strategy
These organizations are then perpetuated and maintained through various interlinked and mutually supportive instruments, policies, and structures	They recognize stakeholders based on fixed and dynamic features, with 'organization' as the most important stakeholder feature	Proactive stakeholder strategy creates several direct and derived benefits for the organization and its stakeholders
	They engage stakeholders in their decision-making and resolve conflicts through discussion and consensus building	Based on the alignment of interests with the societal actors proactive stakeholder organizations gain acceptance within the society
	The overall goal is to achieve balance between stakeholder and organizational goals	All benefits of proactive stakeholder management, especially societal acceptance as manifested by goodwill, links the *instrumental* with the *normative* category
	The alignment of interests by recognizing *'organized'* stakeholders and engaging them in a dialogue brings organizational values closer to societal *'hypernorms'*, thus linking *descriptive* with the *normative* categories	

Future Work

There are three main research agendas that can be pursued to further our understanding of stakeholder theory.

First, a qualitative inductive multiple case study that compares organizations based on different orientations to stakeholder management. In this case it would be beneficial to do a comparative study and assess which stakeholder orientation is better, and what merits and demerits each has. Second is another qualitative study that specifically studies how proactive stakeholder organizations develop and maintain their relationship with their business partners like, vendors, suppliers, retailers, and financiers. In our opinion stakeholder management goes beyond philanthropy and corporate citizenship and it should extend to all organizational relationships. Third, to improve generalizeability, it is proposed that a broad survey based research should be conducted. In this regard the current study can be helpful as it has added to theoretical generalization in stakeholder theory and has contributed in creating more precise hypotheses.

Other than the above main research directions there are other smaller projects that can also be pursued by looking at: effects of institutional changes (B-Lab changing laws) on organizational behavior; mechanisms of flexibility and adaptability within proactive organizations, in essence trying to understand their double-loop learning processes; high Performance Work Systems and proactive stakeholder organizations; derived benefits of proactive stakeholder management; and effects on society of increased awareness to value based business practices.

Concluding Remarks

This study gives a *"Unified Proactive Stakeholder Model"* and increases our understanding of the stakeholder phenomenon in three areas: features of proactive stakeholder firms; dynamics of stakeholder management (how stakeholders are recognized and how proactive organizations interact with them); creation and maintenance of proactive stakeholder organizations; and relational and business benefits of proactive stakeholder organizations.

The above contribution is important but perhaps the most important contribution of this study is the conclusion that proactive stakeholder strategy can be a viable business strategy.

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Appendix I: Case Study Database of Interviews and Site Visits

Organization	Summary of Case Study	Site Visits	In-depth Interviews	Importance
Johnson & Johnson	Pharmaceutical industry; a large multinational with headquarters in New Brunswick (NJ)	Seven visits of the Corporate Headquarters between the Summer of 2009 and Fall 2011	A total of 14 interviews conducted, 12 of those were primary interviews and 2 interviewees were contacted twice for further information	One of the main case studies. In our study J&J represents a large proactive stakeholder organization with a long history of stakeholder orientation. It also gave us some understanding of J&J's organizational culture at its headquarters
Tibotec Therapeutics	A J&J subsidiary that works in the field of AIDS and Hepatitis C research and medication manufacturing	Three visits to Tibotec Titusville, NJ Office from Fall 2009 to Fall 2010	A total of 7 in-depth interviews conducted in this organization	As one of the subsidiaries TT gave us some understanding of how J&J subsidiaries act upon the precepts of J&J Credo
Give Something Back	A mid-sized office supply business operating in Oakland, California	This organization was not visited	A total of 7 in-depth interviews were conducted with exchange of several emails with two important interviewees for further information	This one of the main mid-sized case studies and served the purpose of showing how proactive-accommodative organizations operate
Dansko	A mid-sized comfort shoe manufacturing company situated in West Grove, Pennsylvania	Dansko headquarters, showroom, and new office buildings were visited in Spring 2010	A total of 4 in-depth interviews were conducted in this organization	This is one of the main mid-sized case studies
King Arthur Flour	A mid-sized flour, & baking goods manufacturing company operating in Norwich, Vermont	KAF headquarters were visited in Spring 2010	A total of 7 In-depth interviews were conducted in this organization	This is one of the main mid-sized case studies
Untours	A small sized tour operating company in Media, Pennsylvania	Untours office was visited in Fall 2009	A total of 4 in-depth interviews were conducted in this organization	This one of the main small sized case studies
Green Shirts	A small sized T-Shirt manufacturing company in Burlington, North Carolina	This site was not visited	A total of 3 in-depth interviews were conducted in this organization	This one of the main small sized case studies
Elizabeth Glaser Pediatric AIDS	A leading U.S. national non-profit	Not visited	1 interview conducted	This independent organization works with

Foundation	organization			a number of large corporations regarding their philanthropic activities. It also works with J&J and gave a stakeholder's and partner's perspective to J&J's philanthropic activities
AIDS Treatment Activists Coalition	A national coalition of AIDS activists	Not visited	2 interviews conducted	These interviews gave us a complete picture of how J&J/TT involve potential stakeholders in this case the AIDS activists in their product development
B-Lab	Represents a coalition of mid and small sized organizations aiming to give voice to stakeholder firms	Headquarters in Pennsylvania visited in Spring 2010	1 interview conducted	Through B-Lab access was gained to five mid and small sized. It also gave us some understanding of how its member organizations operate collectively

Appendix II: Demographic Information of Interviewees

	Male	Female	Management	Employees
Johnson & Johnson/Tibotec	11	8	15	4
Give Something Back	2	5	4	3
Dansko	2	2	2	2
King Arthur Flour	2	5	5	2
Untours	2	2	2	2
Green Shirts	3	0	3	0

Appendix III: List of Important Documents

Details of Documents	Organization	Information Obtained
Global Leadership Profile	Johnson & Johnson	This document explains the expectations from top management. It is linked with the Credo and is one of the tools to train and assess managers
Global Survey	Johnson & Johnson	This is the updated Global survey. This power point includes the old questions and the new questions on the survey. It also explains how this survey is linked with the Credo and what it measures in terms of J&J performance from the employee perspective
Customer Survey	Johnson & Johnson	This document is useful in analyzing how the customers think about J&J as an organization. It is not just a customer satisfaction survey but actually assesses J&J performance as a value based organization
ATAC Report Card	Aids Treatment Activist Coalition	This is the report Card that ATAC has published to assess the performance of pharmaceutical companies in the AIDS medication field. This report was useful in understanding how J&J/TT's stakeholders assess its performance.
General Johnson Speeches and Quotes	Johnson & Johnson	Gave some idea about General Johnson's thoughts about a number of issues related to management, business practices, role of organizations in community, and importance of stakeholders.
Corporate Philanthropy Flyer	Johnson & Johnson	Gave some facts about J&J national and international philanthropic activities and volume
Logic Model for Community Programs	Johnson & Johnson	This document was an example of how J&J involves local partners in their philanthropic work. This document also clarified the process through which partners are chosen and how success in such programs is assessed.
Conflict Resolution Guide	King Arthur Flour	Showed the process of conflict resolution among employees and in general in the workplace
Company Booklet	King Arthur Flour	Gave details about the company history and other facts
Culture Booklet	King Arthur Flour	Gave details about the type of culture KAF intends to create in the company
2010 Goals	King Arthur Flour	Gave information on the company goals for the coming years that included a number of financial and qualitative goals
Employee Handbook	King Arthur Flour	Important employee policies
King Arthur Business & Ethics Award Report	King Arthur Flour	Gave details about KAF's philanthropic works
B-Lab Annual Reports (2009, 2010, 2011)	B-Lab	Gave details about the B-lab achievements in the last three years
Untours Booklet	Untours	Gave details about the Untours mission statement and company related information
Customer Statistics	Untours	This was a simple experiment done by the general manager who sent out letters to customers for return business and in some of them he put in the information about Untours' Foundation and its good works. According to the very basic calculations return business from customers who received the Foundation's facts was higher
Employee Handbook	Dansko	Information about employee policies
Annual Report 2008	Dansko	Gave information about the mission statement, financial performance, future plans. Philanthropic activities, and important events
GSB Green Office Guide	Give Something back	Gave details about the GSB Green Audit and how they can help businesses become environmentally friendly

Appendix IV: Informed Consent Form

Informed Consent Form

"You are invited to participate in a research study that is being conducted by Mohammad Abbas Ali, who is a graduate student in the School of Management and Labor Relations at Rutgers University and whose Faculty Advisor/CO-I for this study is Prof. Charles Heckscher who is a professor in the School of Management and Labor Relations at Rutgers University. The purpose of this research is to determine implementation, process, and benefits of stakeholder management done by the subject organizations".

Approximately 25-30 subjects will participate in the study, and each individual's participation will last approximately 25-30 minutes.

The study procedures include (1) Interviews (2) short survey. Participation in this study will involve the following:

- An interview lasting between 25-30 minutes.

This research is anonymous, which means that I will record no information about you that could identify you. This means that I will not record your name, address, phone number, date of birth, etc.

If you agree to take part in the study, you will be assigned a random code number that will be used on each test and the questionnaire. Your name will appear <u>only</u> on a list of subjects, and will <u>not</u> be linked to the code number that is assigned to you. There will be no way to link your responses back to you. Therefore, data collection is anonymous.

The research team and the Institutional Review Board at Rutgers University are the only parties that will be allowed to see the data, except as may be required by law. If a report of this study is published, or the results are presented at a professional conference, only group results will be stated. All study data will be kept for 3 years

There are no foreseeable risks to participation in this study.

Participation in this study is voluntary. You may choose not to participate, and you may withdraw at any time during the study procedures without any penalty to you. In addition, you may choose not to answer any questions with which you are not comfortable.

If you have any questions about the study or study procedures, you may contact me at (732) 529 6161 & 401-301-0481 (cell) or by email at maali1969@hotmail.com or you can contact my advisor Prof. Charles Heckscher at 732-932-1412 or by email at heckscher@att.net please provide full contact information).

If you have any questions about your rights as a research subject, you may contact the IRB Administrator at Rutgers University at: Rutgers University, the State University of New Jersey, Institutional Review Board for the Protection of Human Subjects, Office of Research and Sponsored Programs, 3 Rutgers Plaza, New Brunswick, NJ 08901-8559 Tel: 732-932-0150 ext. 2104, Email: humansubjects@orsp.rutgers.edu

You will be given a copy of this consent form for your records.

Sign below if you agree to participate in this research study:

Subject (Print) _____

Subject Signature _____ Date _____

Principal Investigator Signature _____ Date _____"

Appendix V: Interview Guide

<u>Section 1</u>

- Open ended question to assess the nature, level, and character of the researched

  organization's commitment to stakeholder management?

  - How much the managers know about the stakeholder policy of the firm?

  - How are these policies formed?

  - How are they implemented?

- How stakeholder management is actually performed by managers?

  - What do the managers think of their special role as fiduciaries of

    shareholders and managers of various interests?

  - How do they decide what is important in a given situation?

  - How do you decide which stakeholder is important in a given situation?

  - How stakeholders increase their influence: networking, communication,

    negotiation, withholding vital resources, organizing, publicity, and moral

    pressure etc?

- What are the benefits of good relations with stakeholders?

  - What is the impact of stakeholder management on the achievement of

    organizational goals?

  - How stakeholder management has been useful to the managers and the

    firm, especially, in times of crisis?

  - How does a long trustful relationship with one stakeholder affect relations

    with that stakeholder and is there a spillover effect of this trust in relation

    to other stakeholder-firm relationships?

- Do you think there is a conflict between stakeholder values and stockholder obligations? Do you think that by doing one you ignore the other. As legally you are representative of the stockholders with fiduciary responsibility to them?

- Motivation and intension of managers to engage in stakeholder management?

- How would you describe the top management commitment to stakeholder management?

Section 2

- How would you assess the commitment of the organization to stakeholder management?

- How have you benefitted from the firm's stakeholder management policy?

- How the stakeholder relationship between you and the organization developed?

- Development of trust is important in stakeholder relationships, how and based on what you developed trust on the organization?

- What efforts have you made to maintain trust?

- In what way you have made concessions or benefitted the organization in your stakeholder relationship?

Curriculum Vitae

Mohammad Abbas Ali

EDUCATION

2005-2011 U.S.A.	*Rutgers, The State University of New Jersey*	*New Jersey,*

Doctorate in Philosophy in Human Resources and Labor Relations

2003-2005 U.S.A.	*University of Rhode Island*	*Rhode Island,*

Master of Science in Human Resources and Labor Relations

1989-1991 Pakistan	*University of Punjab*	*Lahore,*

Master of Arts in Political Science

1986-1988 Pakistan	*University of Punjab*	*Lahore,*

Bachelor of Arts, Political Science, Economics, and Statistics

PUBLICATIONS

Ali, **Mohammad A** (2011) "A Global Solution for a Global Industry: The Seafarers' Case." Submitted to *Advances in Industrial and Labor Relations,* Vol. 18.

Mohammad Ali, Lisa Schur, and Peter Blanck (2010) "What Types of Jobs Do People with Disabilities Want? The Same As Anybody Else," *Journal Of Occupational Rehabilitation (JOOR),* Vol. 20 (October)

Kruse, D. Schur, L. & **Ali, Mohammad** (2010) "Projecting Potential Demand for Workers with Disabilities," *Monthly Labor Review*, Vol. 133, No. 10.

Ali, Mohammad A. (2007) "Globalization and Employment Relations in China, South Korea, and India." In Sanjeev Kumar Singh (Ed), *Collective Bargaining: An Introduction* (pp. 112-154). Institute of Chartered Financial Analysts of India (ICFAI).

PROFESSIONAL EXPERIENCE

1995-2002   *Federal Government of Pakistan*
                       Middle Management and Administrative Positions

- *05/00-08/02: Joint Estate Officer, Lahore, Pakistan*. Looked after all matters from general administration, personnel administration, resource management, finance to any other matter that might crop up while running an independent office. In charge of all federal government lands and properties in Lahore city. In charge of federal government rest houses and federal lodges.
- *12/98-05/00: Section Officer Aviation Division, Islamabad, Pakistan*. In charge of: administrative and service matters of Pakistan International Airline (PIA); policy and administrative matters of PIA subsidiaries, which included the Duty Free shop and PIA Shavers. Policy matters of Pakistan International Airline Investment Limited (PIAIL). The company included Roosevelt Hotel (New York), Scribe Hotel (Paris), Minhal Hotel (Riyadh), and Centre Hotel (Abu Dhabi). Policy matters related to PIA's Fleet Replacement Plan; and budget and maintenance of Prime Minister's VVIP aircraft.
- *09/97-12/98: Section Officer Pakistan Meteorological Department, Islamabad, Pakistan*. All establishment matters of officers and staff of Meteorological Department of Pakistan**.** Budgetary matters (Developmental and Non-developmental) of the Meteorological Department of Pakistan. Participation and involvement in matters relating to meteorology in South Asian Association of Regional Cooperation (SAARC). All matters relating to policy making of the Met department.
- *11/95-08/97: Section Officer Ministry of Sports and Tourism, Islamabad, Pakistan*. Administrative matters of Pakistan Tourism Development Corporation, Department of Tourism Services, Pakistan Sports Board, and National Institute of Sports and Culture.