Strategies for Assessing and Managing Organizational Stakeholders
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Strategies for assessing and managing organizational stakeholders

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Executive Overview

To cope with the environmental turbulence and uncertainty facing many U.S. industries, business executives must effectively manage their stakeholders. Stakeholders include those individuals, groups, and other organizations who have an interest in the actions of an organization and who have the ability to influence it. The stakeholder approach systematically integrates executives' concerns about organizational strategy with the organization's interests in marketing, human resource management, public relations, organizational politics, and social responsibility. This integrative perspective assumes that an effective organization strategy requires consensus from a plurality of key stakeholders about what it should be doing and how these things should be done.

By assessing each stakeholder's potential to threaten or to cooperate with the organization, managers' may identify supportive, mixed blessing, nonsupportive, and marginal stakeholders. The 1989 strike at Eastern Airlines illustrates these different types of stakeholders. An analysis of the case underscores the importance of four generic strategies for managing different stakeholders. The case also demonstrates that executives should use an overarching strategy to change relationships with stakeholders from less favorable categories (e.g., nonsupportive) to more favorable ones (e.g., mixed blessing).

Article

Fundamental, turbulent, and revolutionary changes took place in business organizations during the 1980s. External stakeholders called for greater corporate social responsibility among other things.[1] These changes continue during the 1990s and reflect the expectations and influences of stakeholders on issues ranging from organizational governance to operations. These changes have profound effects on managers, as reflected in a 1987 cover story in *Business Week:*

> Outside directors are asserting themselves. Other stakeholders—from employees . . . to communities—want a voice. The internal balance of power is beginning to shift. . . . The days when CEOs could neglect their big institutional owners and other corporate stakeholders are coming to an end . . . [N]ow managers will have to listen to—and learn from—other groups who are demanding a voice in the running of the corporation.[2]

As management realities change, fresh perspectives for understanding and developing organizational strategies are needed. Organizational stakeholders are a significant force affecting organizations. Today, organizational strategists must consider how to manage the stakeholder.[3]

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Stakeholder management provides a more concise description than publics and constituents and is more inclusive than public relations, issues management, or employee relations. Unlike traditional management—which focuses almost exclusively on internal affairs—stakeholder management seeks explicit management of stakeholders who may be internal, external, or interface with an organization.[4] As stakeholders become more active toward, knowledgeable of, and interdependent with an organization, management becomes critical. Indeed, a recent *Business Week* poll of chief executives showed that CEOs perceive that external stakeholders such as institutions holding big stocks, raiders, investment bankers, and stock analysts have gained influence during the past five years.[5]

Unlike traditional management—which focuses almost exclusively on internal affairs—stakeholder management seeks explicit management of stakeholders who may be internal, external, or interface with an organization.[4]

Like many aspects of management, stakeholder management is sometimes assumed to be commonsensical or intuitively obvious. Yet in practice, stakeholder management focuses on overseeing relationships that are critical to an organization's success. In this article, we first develop a framework to identify four types of stakeholders. Four strategies are discussed on how to manage these stakeholders. Second, using Eastern Airlines as a case, we describe the effects of mismanaging stakeholders. Eastern's retrenchment strategy had little success with its key stakeholders. Third, we discuss implications of our framework for executives.

Understanding Stakeholders' Influence

A common view is that managers are only responsible for activities necessary for their business to make a profit within the economic, legal, and regulatory constraints of the marketplace. In contrast to this view of management, many scholars now argue that organizations should be socially responsible and voluntarily seek ways to satisfy their key stakeholders to avoid adverse actions. A recent study by McGuire, Sundgren, and Schneeweis found that firms with low social responsibility face greater financial risks than do socially responsible firms.[6]

Establishing an organization that is socially responsible and effective within a turbulent global economy is a "wicked problem" with no clear solution.[7] System theories try to solve it by focusing on the connections created by organizations' resource dependencies.[8] A stakeholder management approach complements and extends this perspective by addressing organizations' and stakeholders' power, intentions, and values.

Recognizing Relevant Stakeholder Issues

Much of the literature on stakeholders has focused on identifying primary and secondary stakeholders such as those listed in the *Business Week* poll.[9] Primary stakeholders are those who have formal, official, or contractual relationships and have a direct and necessary economic impact upon the organization. Secondary stakeholders are diverse and include those who are not directly engaged in the organization's economic activities but are able to exert influence or are affected by the organization.[10]

The literature often fails to classify types of stakeholders and delineate strategies for management. Stakeholders' significance depends upon the situation and the issues and managers must have appropriate methods to deal with different stakeholders. Of all the possible stakeholders, the ones who will be relevant to the organization's executives depend on the particular issue. Both the stakeholder's willingness and opportunity to act are particularly sensitive to specific issues.

For example, if the issue concerns restructuring for efficiency, the stakeholders probably will be different than those concerned about product liability. In the first

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case, primary stakeholders such as creditors, labor unions, and large institutional stockholders are likely to express views. In the second case, both primary and secondary stakeholders such as the federal government, insurance carriers, and consumer interest groups are likely to assert influence. (Whether the stakeholders are primary or secondary, we refer to them as key stakeholders if the issue is salient to them.) The classification of the relevant stakeholders likely will be different on these two issues as well. Executives cannot assume a supportive stakeholder on the first issue will be so on the second issue, nor that a nonsupportive stakeholder on the second issue will always be nonsupportive. Issue specificity suggests that stakeholder diagnosis is an ongoing activity. Executives constantly need to assess stakeholders' interests, capabilities, and needs. Without an appropriate framework, managers are likely to respond in the traditional ad hoc manner to stakeholders—greasing the squeaky wheel.

Instead, executives need to go beyond traditional strategic management issues, such as likely competitors actions or market attractiveness. They should also evaluate the environment for those external, internal, and interface stakeholders that are likely to influence the organization's decisions. Two critical assessments must then be made about these stakeholders: (1) their potential to threaten the organization, and (2) their potential to cooperate with it.[11] The stakeholder's capacity, opportunity, and willingness to threaten or cooperate must be considered.

Diagnosing the Stakeholder's Potential for Threat

Hostility or threat is a key variable in organization-environment-strategy relationships.[12] Looking at the potential threat of stakeholders is similar to developing a "worst case" scenario and protects managers from unpleasant surprises. The stakeholder's relative power and its relevance to a particular issue confronting the organization determines the stakeholder's capacity for threat. Power is often a function of the organization's dependence on the stakeholder. Generally, the more dependent the organization, the more powerful the stakeholder. For example, the power of a supplier is a function of the firm's dependence on the supplier. If there are numerous sources for input, the purchasing organization is less dependent on a single supplier, thereby reducing its power.[13]

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However, a stakeholder's capacity for threat is also tempered by it opportunities and willingness to act. This is where the relevance of the organization's own actions for the stakeholder come into play. For example, if the organization is seeking to improve efficiency and quality by entering into a just-in-time relationship with one or two suppliers, then the stakeholder's opportunity to threaten the organization will be fairly great. Yet this opportunity may be dismissed if the stakeholder is not willing to jeopardize a potentially lucrative supplier-buyer relationship. Managers can assess the willingness of a stakeholder to threaten the organization by considering the quality and durability of the stakeholder—organization relationship.

Diagnosing the Stakeholder's Potential for Cooperation

The potential for stakeholder cooperation is often ignored because analyses usually emphasize types and magnitude of stakeholder threats.[14] Cooperation should be equally emphasized since it allows stakeholder management to go beyond merely defensive or offensive strategies. The potential for stakeholder cooperation is particularly relevant because it may lead to companies joining forces with other stakeholders resulting in better management of business environments.

Assessing the potential for cooperation is similar to a "best case" scenario development. The stakeholder's capacity to expand its interdependence with the

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organization partially determines the stakeholder's cooperative potential. Additionally, the stakeholder's willingness to cooperate with the organization must be considered. Frequently, the more dependent the stakeholder on the organization, the higher the willingness to cooperate. Of course, such willingness is also influenced by the business environment. That is, the organization and the stakeholder may perceive an opportunity for increased interdependence because of a threat from the environment.

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Ross Laboratories, the nutritional division of Abbott Laboratories, once found itself at odds with UNICEF and WHO over infant formula in third world countries. These stakeholders wanted the formula banned in these countries, claiming that infant formula companies were influencing women to stop breast feeding. The company undertook a multinational information campaign and convinced these organizations to work with Abbott to promote infant health in third world countries. Thus, Abbott found a way to cooperate with these powerful stakeholders. Others in the industry, including Nestle, did not choose to develop the potential to cooperate and suffered from consumer boycotts in Western nations.[15]

Identifying Factors Affecting the Potentials for Threat and Cooperation
Besides power, other factors affect the level of a stakeholder's potential for threat or cooperation. In Exhibit 1, we provide a list of stakeholder characteristics that executives should consider when diagnosing threat or cooperation potential. We also indicate how different factors may affect each type of potential. Some of the factors address the relative power of the stakeholder vis-á-vis the organization, in general, or with specific power resulting from control over key resources. Others focus on the kind of action the stakeholder might take. Is that action likely to be supportive or hostile? Is the stakeholder likely to form a coalition with other stakeholders or, instead, with the organization?

Exactly how a factor will affect the potential for threat or cooperation depends on

	Increases or Decreases Stakeholder's Potential for Threat?	Increases or Decreases Stakeholder's Potential for Cooperation?
Stakeholder controls key resources (needed by organization)	Increases	Increases
Stakeholder does not control key resources	Decreases	Either
Stakeholder more powerful than organization	Increases	Either
Stakeholder as powerful as organization	Either	Either
Stakeholder less powerful than organization	Decreases	Increases
Stakeholder likely to take action (supportive of the organization)	Decreases	Increases
Stakeholder likely to take nonsupportive action	Increases	Decreases
Stakeholder unlikely to take any action	Decreases	Decreases
Stakeholder likely to form coalition with other stakeholders	Increases	Either
Stakeholder holder likely to form coalition with organization	Decreases	Increaes
Stakeholder unlikely to form any coalition	Decreases	Decreases

Exhibit 1. Factors Affecting Stakeholder's Potentials for Threat and Cooperation

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(1) the specific context and history of the organization's relations with that stakeholder and (2) other key stakeholders influencing the organization. By carefully considering the factors in Exhibit 1, executives can fine tune their analyses of stakeholders.

Managing Stakeholders: Types and Strategies

The two dimensions—potential for threat and potential for cooperation—permit a manager to classify stakeholders into four types as shown in Exhibit 2. This typology helps the executive specify generic strategies for managing stakeholders with different levels of potential.

Type 1: The Supportive Stakeholder

The ideal stakeholder supports the organization's goals and actions. Executives wish all their stakeholders were of this type. Such a stakeholder is low on potential threat but high on potential for cooperation. Usually, for a well-managed organization, its board of trustees, managers, staff employees, and parent company will be supportive. Other supportive stakeholders may include suppliers, service providers, and non-profit community organizations.

Strategy 1: Involve the Supportive Stakeholder

By involving supportive stakeholders in relevant issues, executives can maximally encourage cooperative potential. We emphasize this strategy because supportive

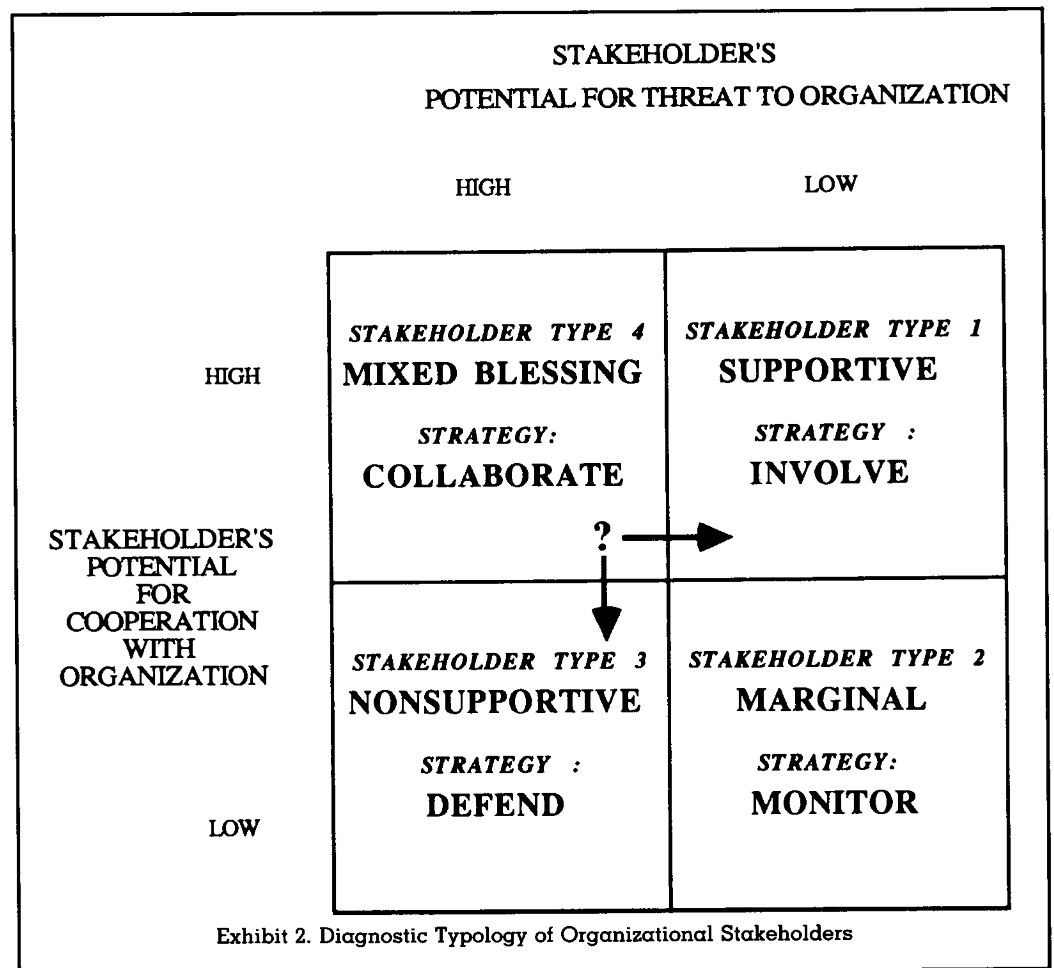

Exhibit 2. Diagnostic Typology of Organizational Stakeholders

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stakeholders often are ignored as stakeholders to be managed, and therefore, their cooperative potential may also be overlooked. Although it takes constant effort, executives can involve stakeholders such as employees and lower-level managers by implementing participative management techniques, decentralizing authority to middle managers, or increasing the decision-making participation of these stakeholders.[16]

By involving supportive stakeholders in relevant issues, executives can maximally encourage cooperative potential. We emphasize this strategy because supportive stakeholders often are ignored as stakeholders to be managed, and therefore, their cooperative potential may also be overlooked.

Getting external stakeholders involved in different parts of the organization can also yield positive results. For example, by involving suppliers in its production process, Xerox reduced net product cost by ten percent per year between 1981 and 1984. It accomplished this by substituting performance specifications for product blueprints, thus allowing suppliers to design parts. Rejects of incoming materials by Xerox were reduced by ninety-three percent, new product development time and cost were reduced by fifty percent, and production lead times were reduced from fifty-two weeks to eighteen weeks.[17]

Type 2: The Marginal Stakeholder
Marginal stakeholders are neither highly threatening nor especially cooperative. Although they potentially have a stake in the organization and its decisions, they are generally not concerned about most issues. For medium- to large-sized organizations, stakeholders of this kind may include consumer interest groups, stockholders, and professional associations for employees. However, certain issues such as product safety, pollution, or greenmail could activate one or more of these stakeholders, causing their potential for either threat or cooperation to increase.

Strategy 2: Monitor the Marginal Stakeholder
Monitoring helps manage marginal stakeholders whose potential for both threat and cooperation is low. By recognizing that these stakeholders' interests are narrow and issue specific, executives can minimize the organization's expenditure of resources. When making strategic decisions, top managers should monitor the interests of typically marginal stakeholders. Only if the issues involved in the decisions are likely to be salient to those stakeholders should the organization act to increase their support or to deflect their opposition. Otherwise, effort may be wasted.

The monitoring efforts taken by General Motors during the 1970s certainly were not wasted. Recognizing the sensitivity of racial issues for U.S. civil rights organizations, GM broadened the membership of its board of directors. Its endorsement of Reverend Leon Sullivan's principles helped create a way for U.S. organizations to conduct business in South Africa without supporting apartheid. The farsightedness of these actions is most apparent given the efforts during the 1980s of civil rights and university student groups to curtail institutional investments in organizations supporting South Africa's policy of apartheid. These typically marginal stakeholders influenced key stakeholders, including major universities and city and state governments, to join their cause. Partly as a result, U.S. businesses with direct investments in South Africa have become increasingly rare.[18]

Type 3: The Nonsupportive Stakeholder
Stakeholders high on potential threat but low on potential cooperation are the most distressing for an organization and its managers. For many large manufacturing organizations, typical nonsupportive stakeholders include competing organizations, employee unions, the federal government (and, possibly, local and state governments) and sometimes the news media.

Strategy 3: Defend against the Nonsupportive Stakeholder
Nonsupportive stakeholders initially are best managed using a defensive strategy. In terms of Kotter's framework on external dependence, the defense strategy tries to reduce the dependence that forms the basis for the stakeholders' interest in the

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organization.[19] A clear example of the defense strategy occurred in the early 1980s, shortly after the aborted air traffic controller strike in the United States. The airlines voluntarily cut back on the number of flights during peak traffic hours, forestalling the Federal Aviation Agency from regulating the number of flights each airline could offer.

In a defensive strategy, the connection of stakeholder management to broader strategic management is very clear, involving many traditional marketing and strategic notions for handling competitors. However, although this strategy may be necessary initially, executives should always try to find ways to change the status of key stakeholders.

Type 4: The Mixed Blessing Stakeholder
The mixed blessing stakeholder plays a major role. Here, the executive faces a stakeholder whose potentials to threaten or to cooperate are equally high. Generally, in a well-managed organization, stakeholders of the mixed blessing type would include employees who are in short supply, clients or customers, and organizations with complementary products or services. Exhibit 2 shows a question mark under the mixed blessing stakeholder with two arrows. One arrow is directed towards the supportive stakeholder; the other is pointed at the nonsupportive stakeholder implying that mixed blessing stakeholder could become either more or less supportive.

Strategy 4: Collaborate with the Mixed Blessing Stakeholder
The mixed blessing stakeholder, high on both the dimensions of potential threat and potential cooperation, may best be managed through collaboration. If business executives maximize the stakeholders' cooperation, potentially threatening stakeholders will find it more difficult to oppose the organization. A variety of joint ventures or other collaborative efforts, up to and including mergers, are possible.

For example, during the last half of the 1980s, General Motors renewed its emphasis on collaboration with the United Auto Workers both in its contract negotiations with the union and in its production of new cars and engines. More dramatic, however, has been GM's joint venture activities with major competitors such as Toyota.[20] Indeed, for the mixed blessing stakeholders, effective collaboration may well determine the long-term stakeholder–organization relationship. If this type of stakeholder is not properly managed through using a collaborative strategy, it can easily become a nonsupportive stakeholder.

The case of Eastern Airlines clearly illustrates the need for both the classification and strategic assessment of key stakeholders. We realize that hindsight provides us with an opportunity to analyze stakeholders far better than Eastern's management could at the time the situation occurred. Nonetheless, we believe that stakeholder analysis would also provide superior information and decision making if employed as situations arise. Frank Lorenzo's stormy relationship with the International Association of Machinists (IAM) certainly underscores the need for assessing and classifying key stakeholders. After a brief account of the details of the case, we assess many of Eastern's key stakeholders and apply generic stakeholder management strategies to the case.

Grounding Eastern Airlines: A Case for Stakeholder Management[21]
The stakeholder map in Exhibit 3 illustrates the relationships that existed between Eastern Airline and its key stakeholders during the last quarter of 1989. The bold, double-headed arrow between the machinist union and Eastern Airlines represents the specific issue (strike) in which all the other stakeholder relationships are viewed, while the shaded, double-headed arrow represents coalitions

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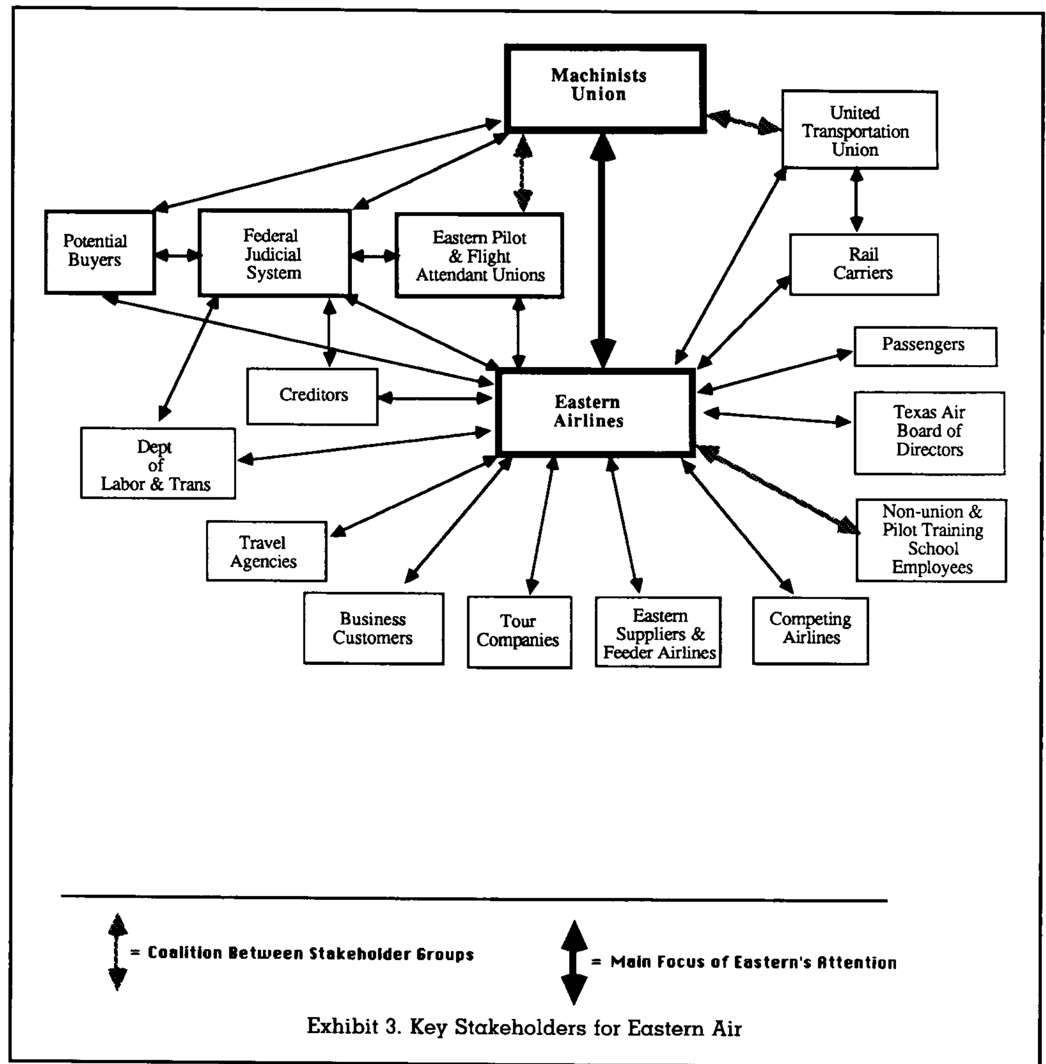

Exhibit 3. Key Stakeholders for Eastern Air

between stakeholders. The other double-headed arrows represent the relationships that then existed between Eastern and other stakeholders.

In early 1989, Frank Lorenzo, chairman of Texas Air Corporation, was faced with the continuing problem of managing a turn-around of financially troubled Eastern Airlines—a subsidiary of Texas Air. In addition, there existed a high probability that the IAM would strike. Lorenzo was no novice at such turnarounds, having brought Continental Airlines (another Texas Air subsidiary) back from bankruptcy less than six years earlier. That bankruptcy allowed Continental to free itself of union contracts, resulting in a low-cost carrier able to compete with the nation's largest airlines.

To accomplish the turn-around at Eastern, Lorenzo chose a retrenchment strategy similar to one used at Continental, involving wage concessions from all employees. Even though Eastern's unionized pilots and flight attendants agreed to wage concessions after Texas Air acquired Eastern in 1986, the mechanics, baggage handlers, and other ground workers represented by the IAM had not. Eastern sought as much as a forty percent wage reduction (approximately $178.6

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million) from its baggage handlers and mechanics; however, just before the 1989 strike deadline, Eastern reduced the wage concessions to twenty-eight percent ($125 million).[22] By the March 4, 1989 deadline, no agreement had been reached, so the IAM went on strike. Although the IAM attempted to spread the strike to other transportation industries, the federal courts prevented this maneuver.

Eastern planned to maintain its flight schedule throughout the machinists' strike by having management and other workers fill in for the 8500 striking IAM workers. However, on March 7, 1989, the Air Line Pilots Association (ALPA) voted to support the IAM with a sympathy strike.[23] By the fifth day of the strike, flights were reduced to four percent of the pre-strike level. Because of losses of $4 million per day, on March 9, 1989, Eastern filed for Chapter 11 bankruptcy.[24]

From Mixed Blessing to Nonsupportive Stakeholders
One of Eastern's most important mixed blessing stakeholder was the ALPA pilots who were flying before the strike. Even though the striking pilots' jobs were clearly in jeopardy, a majority refused to give in to Eastern's management.[25] In fact, when Captain Jack Bavis, the chairman of ALPA, told the pilots that they needed to return to work in September 1989, the striking pilots replaced him with Captain Skip Copeland who was more of a hardliner.[26] However, in late November, President Bush vetoed legislation that would have set up a special commission to investigate the dispute. With no hope of gaining any concessions, the pilots and flight attendants voted to end their strike. By this time, however, few if any jobs remained open at the airline.

Although Eastern workers owned twenty five percent of the company through an earlier settlement under Frank Borman, Eastern missed the opportunity to collaborate with the pilots who were members of ALPA. For example, if Eastern had offered a gain-sharing program in return for wage or work rule concessions, it might have prevented the pilots from joining the striking machinists. As indicated by Exhibit 4, four of Eastern's most important mixed blessing type stakeholders—creditors, the pilot union, the flight attendant union, and travel agents—became nonsupportive stakeholders.

During the early stages of bankruptcy, Lorenzo continued to sell or lease assets, including the Eastern shuttle and twenty one Boeing 727s to Donald Trump for $365 million.[27] The sale of the assets was to ensure that a downsized Eastern could survive bankruptcy and reduce the likelihood that striking employees would be able to force concessions from Eastern. During this time, the coalition of unions protested against the sale of these assets, claiming that Texas Air Corporation had already transferred assets from Eastern without paying fair market prices.[28] Moreover, management claims that everything was going according to plan, were clearly contradicted by the continuing strike. Consequently, Eastern's creditors became nonsupportive stakeholders who protested every attempt by Eastern to retain cash for operating expenses. Additionally, travel agents discouraged business travelers from booking reservations with Eastern before the strike and did not support the few remaining flights that Eastern could support after declaring bankruptcy. The indictment of Eastern for failing to perform mandatory maintenance on aircraft and falsifying related records alienated even non-business travelers as Eastern struggled to regain market share in 1990.[29]

From Defending Against Nonsupportive Stakeholders to Actually Aiding Them
As hindsight shows, the best defense against the IAM would have been to do whatever was necessary to keep the pilots and flight attendants from joining the strike. Instead, Lorenzo's retrenchment strategy unified the employees against him because he had greatly reduced the value of Eastern through asset sales. As the strike progressed and the company continued to lose money, the question of whether Eastern had any net worth became debatable. Employees recognized

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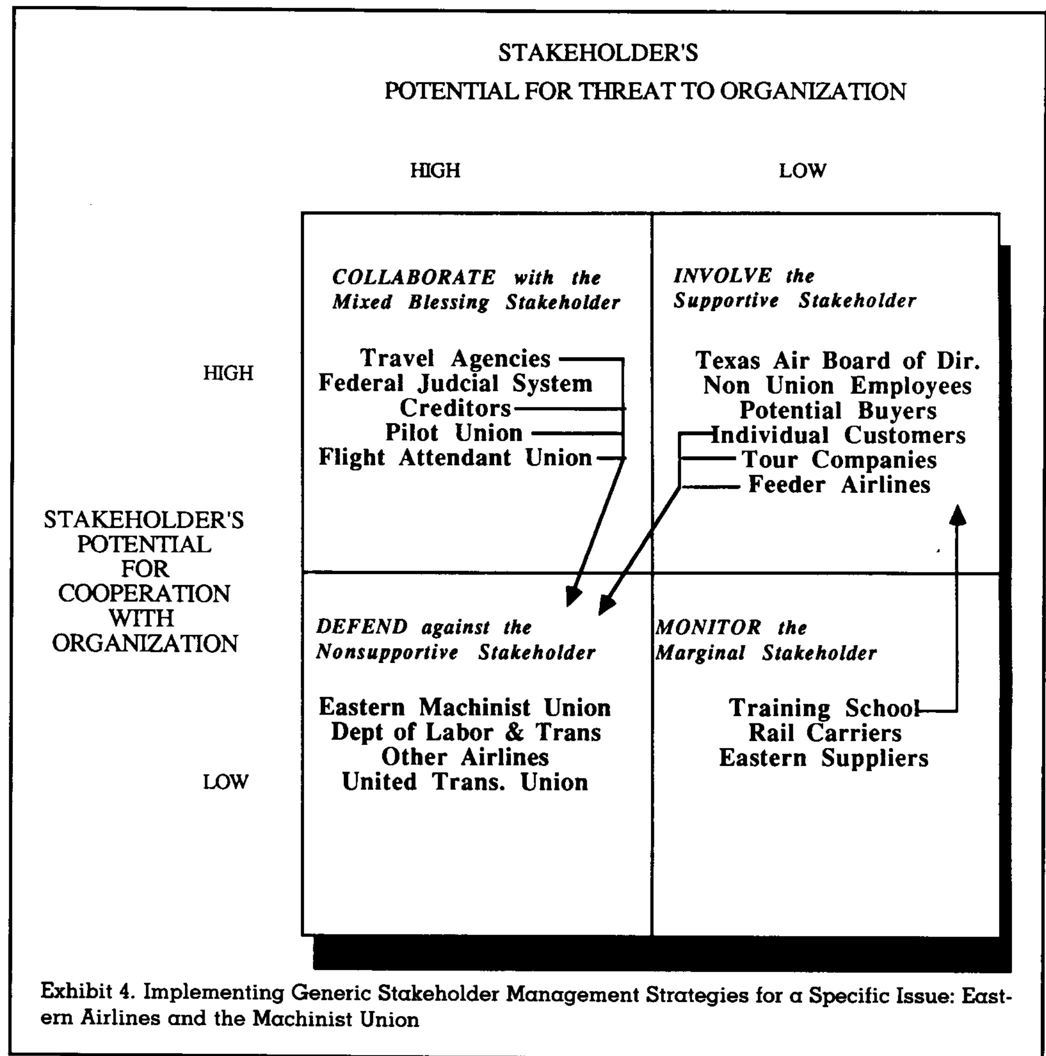

Exhibit 4. Implementing Generic Stakeholder Management Strategies for a Specific Issue: Eastern Airlines and the Machinist Union

that any potential buyer of the airline would demand concessions. They were outraged as they realized that Lorenzo's tactics were designed to reduce their bargaining power. Lorenzo became the villain and striking employees were willing to abandon careers rather than concede to him. Hence, from the start, both the IAM and the ALPA determined that they would only settle for the transfer of Eastern's ownership and recruited buyers for the airline.[30]

During this time, other airlines added flights, and loads approached 100 percent on routes competing with Eastern. Moreover, profits surged as competitors picked up the slack left by the grounded Eastern planes. Eastern attempted to win back market share by discounting rates during the summer of 1989. This tactic was successful for a short time, but competitors soon countered with discounted fares. Eastern then raised fares rather than engage in price competition with airlines that had recently reaped increased profits. These competing airlines are nonsupportive stakeholders that gained an advantage during the peak of the combined strike. Indeed, for Eastern, the loss of passengers has ultimately proven more costly than a settlement with the unions would have been. Tradeoffs between negotiating with the unions and allowing competitors to gain strength should have been evaluated to discover the transaction cost of perpetuating the strike.

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From Supportive to Nonsupportive Stakeholders
The effect of the strike was not limited to Eastern, the unions, and creditors. Supportive stakeholders were negatively affected, changing them into nonsupportive stakeholders. Business passengers were left without reservations after the strike, and Eastern's bankruptcy made their tickets virtually worthless. Tour companies suffered massive losses when they could not deliver on tours already booked and sold. And the small feeder airlines to Eastern, especially those to its shuttle, were also forced to declare bankruptcy, greatly curtail activities, or forge new alliances with Eastern's competitors.[31]

From Marginal to Supportive Stakeholders
In addition to the few pilots who crossed the picket lines, Eastern began to get pilots from a school it had organized. This action allowed Eastern to gradually add more flights. As it became clear that Eastern would continue to fly, more pilots crossed the picket lines and Eastern started flying about as many routes as it had planned. Before the strike took place, the pilot training schools had little influence with Eastern. As long as pilots were in plentiful supply, these schools really did not have much potential for threat or cooperation. However, as soon as the strike by the pilots was imminent, this marginal stakeholder became very important, as illustrated in Exhibit 4. It became critical for Eastern to negotiate with instructors so that new pilots could be trained.

In summary, Eastern suffered tremendous losses and continued to lose money until its liquidation in 1991. The airline reported a 1989 operating loss of $852.3 million, and Eastern's market share shrunk from the seventh largest in the U.S. in early 1989 to the ninth largest by the end of 1989.[32] Matters continued to worsen, and in April 1990, a bankruptcy judge wrested control of Eastern from Texas Air Corporation, appointing a trustee to manage the company. Ironically, as a result of the strike and its aftermath, Frank Lorenzo has resigned from Texas Air and is likely to walk away with $37 million.[33]

Transforming Typical Stakeholder Relationships
To this point, we have presented a brief overview of four essential elements in the stakeholder management process: (1) identify key organizational stakeholders; (2) diagnose them along two critical dimensions of potential for threat and potential for cooperation; (3) formulate appropriate strategies both to enhance or change current relationships with those key stakeholders and to improve the organization's overall situation; and (4) effectively implement these strategies.

We have focused primarily on diagnosing stakeholders and formulating appropriate strategies for managing these stakeholders. Another fundamental stakeholder management strategy is to transform the stakeholder relationship from a less favorable to a more favorable one. Then, the stakeholder can be managed using the generic strategy most appropriate for that "new" classification. Rather than simply collaborate with a mixed blessing stakeholder by supplying reservation systems to travel agents, for example, airlines could try to strengthen the relationship to turn travel agents into a supportive stakeholder.[34] Aggressive public relation-building or stock bonuses to the agencies might work. Having built a more positive relationship, the organization could continue to manage the agency through a less intensive strategy of involvement.

An organization could also collaborate with a labor union in a quality of work life program of productivity enhancement combined with gain sharing to union members. Such an effort may succeed in enhancing the union's potential for cooperation. If this program were successful, the organization would have succeeded in moving the labor union from nonsupportive to a mixed blessing. This approach is quite different than simply defending against a nonsupportive union stakeholder (i.e., our previously suggested generic strategy) by attempting to

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break the union or hiring consultants to help in labor-management bargaining. In essence, the union's stake in the organization will have changed. For example, GM averted a strike by the UAW in 1987 by promising job security to union members contingent upon productivity gains to be developed by labor-management committees.[35]

Clarifying Management's Stake in Stakeholder Management

To survive the turbulent and revolutionary changes facing their industries, executives must better manage their internal, external, and interface stakeholders. We argue that managers should attempt to satisfy minimally the needs of marginal stakeholders and to satisfy maximally the needs of supportive and mixed blessing stakeholders, enhancing the latter's support for the organization. The stakeholder with the loudest voice is but one stakeholder among many and may even have a marginal stake. For instance, when Frank Lorenzo focused attention on the machinist union, he ignored other key stakeholders. The relationships with these other stakeholders deteriorated to the point that Eastern Airline has collapsed. Lorenzo not only failed to identify key stakeholders, but also failed to discriminate among their conflicting demands.

We argue that managers should attempt to satisfy minimally the needs of marginal stakeholders and to satisfy maximally the needs of supportive and mixed blessing stakeholders, enhancing the latter's support for the organization.

To satisfy key stakeholders, managers must first identify those stakeholders who are likely to influence the organization. Then executives must make two critical assessments about these stakeholders: (1) their potential to threaten the organization and (2) their potential to cooperate with it. Managers should account for such factors as relative power, the specific context and history of the organization's relations with it, specific issues which may be particularly salient, and other key stakeholders influencing the stakeholder. These factors will determine the stakeholder's capacity, willingness, and opportunity to either threaten or cooperate with the organization.

The stakeholder's orientation discloses whether it is supportive, marginal, nonsupportive, or a mixed blessing to the organization. Executives should involve supportive stakeholders, monitor marginal ones, defend against nonsupportive stakeholders, and collaborate with mixed-blessing stakeholders. As an overarching strategy, managers should try to change their organizations' relationships with the stakeholder from a less favorable category to a more favorable one.

Clearly, executives need to do more than merely identify organizational stakeholders. They must develop the organizations' capacity for strategic stakeholder management rather than concentrating only on effectively dealing with a particular stakeholder on a specific issue. To survive in the future, organizations should establish goals for their relationships with current and potential stakeholders as part of an on-going strategic management process. These goals should consider the potential impact of stakeholders on corporate and business unit strategies. Also, managers should find the stakeholder notion helpful when integrating planned strategies with daily managerial practices. By focusing on key stakeholders' potential for threat and for cooperation, executives can avoid implementing plans that will be opposed by stakeholders, recognize their emergent needs, modify plans to involve them, and sidestep the problems associated with an organization overwhelmed by stakeholders.

To aid executives in this task, management researchers should focus on (1) analyzing stakeholders' stakes and power, (2) identifying stakeholders' critical dimensions, (3) finding ways to facilitate managers' abilities to challenge their own assumptions, (4) examining how managers may effectively negotiate with stakeholders, (5) handling conflicting demands from equally powerful key stakeholders, and (6) creating and assessing strategies to enhance cooperation with stakeholders. We encourage others to address these issues to extend the stakeholder diagnostic model and strategies we have presented here. Such future

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practice and research is critical for better understanding the processes and strategies involved in effective stakeholder management.

Endnotes

[1] For discussions of some of the factors creating rapid changes in management, see P.F. Drucker, *Managing in Turbulent Times,* (New York, Harper and Row, 1980) and T.J. Peters, *Thriving on Chaos,* (New York: Harper & Row, 1988).

[2] B. Nussbaum and J.H. Dobrzynski, "The Battle for Corporate Control," *Business Week,* May 18, 1987, 103 & 108.

[3] See R.O. Mason and I.I. Mitroff, *Challenging Strategic Planning Assumptions,* (New York, NY: Wiley, 1981); I.I. Mitroff, *Stakeholders of the Organizational Mind,* (San Francisco, CA: Jossey-Bass, 1983); R.E. Freeman, *Strategic Management: A Stakeholder Approach,* (Marshfield, MA: Pitman Publishing, 1984); and I.C. MacMillan and P.E. Jones, *Strategy Formulation: Power and Politics,* (St. Paul, MN: West Publishing Co., 1986).

[4] Staff employees and middle managers are examples of internal stakeholders. The local community, federal government, suppliers, competitors, and customers are examples of external stakeholders. A corporation's board of directors and its auditors typify interface stakeholders. The difficult status of the director as an interface stakeholder is discussed in L. Baum and J.A. Byrne's cover story—"The Job Nobody Wants"—in the September 8, 1986 *Business Week;* J.A. Raelin highlights the ethical responsibilities of the auditor's watchdog role in "The Professional as the Executive's Ethical Aide-de-Camp," *Academy of Management Executive,* 1987, *1*(3), 171-182.

[5] See the Business Week/Harris Executive Poll (p. 28) in B. Nussbaum, "The Changing Role of the CEO," *Business Week,* October 23, 1987, 13-28.

[6] For example, L.E. Preston and J.E. Post argue in *Private Management and Public Policy: The Principle of Public Responsibility* (Englewood Cliffs, NJ: Prentice-Hall, 1975) that organizations should be socially responsible because (1) the political and legal system is not able to adjust rapidly enough to ensure organizations are accomplishing socially desirable ends, (2) the market contract model does not ensure desirable ends because organizations possess inadequate knowledge of resources and of the system to optimize its choices, and (3) large organizations try to shape cultural values in its own interests. Other authors argue that the effectiveness of an organization can be measured by the minimization of harm to the organizational stakeholders; see, for example, M. Keeley, "Impartiality and Participant-Interest Theories of Organizational Effectiveness," *Administrative Science Quarterly,* 1984, *29,* 1-25. For empirical studies of the effect of social responsibility upon a firm's performance, see J.B. McGuire, A. Sundgren, and T. Schneeweis, "Corporate Social Responsibility and Firm Financial Performance," *Academy of Management Journal,* 1988, *21*(4), 854-872; K. Aupperle, A. Carroll, and J. Hatfield, "An Empirical Examination of the Relationship Between Corporate Social Responsibility and Profitability," *Academy of Management Journal,* 1985, *28,* 446-463; A. Ullmann, "Data in Search of a Theory: A Critical Examination of the Relationships Among Social Performance, Social Disclosure, and Economic Performance," *Academy of Management Review,* 1985, *10,* 540-577; P. Cochran and R. Wood, "Corporate Social Responsibility and Financial Performance," *Academy of Management Journal,* 1984, *27,* 42-56.

[7] For discussions of wicked problems facing managers of organizations, see R.O. Mason and I.I. Mitroff, *Challenging Strategic Planning Assumptions,* (New York, NY: Wiley, 1981); H.H. Rittel and M.M. Webber, "Dilemmas in a General Theory of Planning," *Policy Sciences,* 1973, *4,* 155-169; H. Rittel, "Some Principles for the Design of an Educational System for Design," *J. Architectural Education,* 1972, *26,* 16-27.

[8] See, for example, J. Pfeffer and G. Salancik, *The External Control of Organizations: A Resource Dependence Perspective,* (New York: Harper and Row, 1978).

[9] Business Week/Harris Executive Poll (p. 28) in B. Nussbaum, "The Changing Role of the CEO," *Business Week,* October 23, 1987, 13-28.

[10] These definitions are derived from the following sources: I. Ansoff, *Corporate Strategy,* (New York: McGraw-Hill, 1965); A.B. Carroll, *Business & Society: Ethics & Stakeholder Management,* (Cincinnati, OH: South-Western Publishing Co., 1989); D.J. Wood, *Business and Society,* (Glenview, IL: Scott, Foresman/Little, Brown Higher Education, 1990).

[11] These two dimensions for assessment are discussed by R.E. Freeman in *Strategic Management: A Stakeholder Approach,* (Marshfield, MA: Pitman Publishing, 1984) and by J.D. Blair and C.J. Whitehead in "Too Many on the Seesaw: Stakeholder Diagnosis and Management for Hospitals," *Hospital & Health Services Administration,* 1988, *33*(2), 153-166.

[12] See D. Miller and P. Friesen, "Archetypes of Strategy Formulation," *Management Science,* 1978, *24,* 921-33.

[13] The following article and books provide a basis for our discussion of power: W.B. Carper and R.J. Litschert, "Strategic Power Relationships in Contemporary Profit and Nonprofit Hospitals," *Academy of Management Journal,* 1983, 26(2), 311-320; J. Pfeffer and G. Salancik, *The External Control of Organizations: A Resource Dependence Perspective,* (New York, NY: Harper and Row, 1978); H. Mintzberg, *Power In and Around Organizations,* (Englewood Cliffs, NJ: Prentice-Hall, 1983).

[14] See, for example, I.C. MacMillan and P.E. Jones, *Strategy Formulation: Power and Politics,* (St. Paul, MN: West Publishing Co., 1986).

[15] For a more detailed discussion of Abbott's

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negotiations see F. Sturdivant and L. Robinson, eds., *The Corporate Social Challenge*, (Homewood, IL: R.D. Irwin Inc., 1981) and D.O. Cox, "The Infant Formula Issue: A Case Study," in *Business Environment/Public Policy: The Field and Its Future 1981 Conference Papers*, E.M. Epstein and L.E. Preston, eds., (St. Louis, MO: American Assembly of Collegiate Schools of Business, 1981).

[16] For examples of participative management techniques, see R. Zager and M.P. Rosow, eds., *The Innovative Organization: Productivity Programs in Action*, (New York: Pergamon Press, 1982).

[17] D.N. Burt, "Managing Suppliers Up to Speed," *Harvard Business Review*, 1989, *67*(4), 127-135.

[18] See the following sources: "A Conversation with the Rev. Leon Sullivan, Going All-Out Against Apartheid," *New York Times*, July 27, 1986, F1; D. Kneale, "Firms with Ties to South Africa Strike Back at Colleges That Divest, *The Wall Street Journal*, December 10, 1986, 37; E. Weiner, B. Starr, and Z. Cuneo, "Trade with South Africa: City Hall Turns up the Heat," *Business Week*, March 17, 1986, 70-71; D. Beaty and O. Harari, "Disvestment and Disinvestment in South Africa: A Reappraisal," *California Management Review*, Summer 1987, 31-50.

[19] J.P. Kotter, "Managing External Dependence," *Academy of Management Review*, 1979, *4*(1), 87-92.

[20] For an overview of GM's collaborative relationship with the UAW during the 1970s, see D.L. Landen and H.C. Carlson, "Strategies for Diffusing, Evolving, and Institutionalizing Quality of Work Life at General Motors," in R. Zager and M.P. Rosow, eds., *The Innovative Organization: Productivity Programs in Action*, (New York: Pergamon Press). See W. Zellner and A. Berstein, "How GM and the UAW Kept From Butting Heads," *Business Week*, October 26, 1987, 32, for a discussion of some of GM's more recent collaborative efforts.

[21] The following case and its analysis draws extensively from accounts published in *The Wall Street Journal, Dallas Morning News*, and *Business Week*. Please contact the first author for a detailed set of citations for this case analysis.

[22] B. O'Brian, "Eastern Offers Wage-Cut Pact as Strike Looms," *The Wall Street Journal*, March 3, 1989, A3.

[23] To deter the pilots, Eastern asked the 11th U.S. Circuit Court to determine whether the ALPA was conducting a lawful sympathy strike or an illegal primary strike. The court, however, ruled in favor of the ALPA. See "Eastern Returns to Court, Plans Pilot School," *The Dallas Morning News*, March 27, 1989, D1 and C. Harlan, "Sympathy Strikes By Rail, Air Unions Protected in Ruling," *The Wall Street Journal*, April 14, 1989.

[24] See B. O'Brian, "A Look at Troubled Eastern's Options," *The Wall Street Journal*, March 8, 1989 and B. O'Brian and T. Petzinger, "Going for Broke. Bankruptcy Strategy for Eastern Airlines Could Fail Lorenzo," *The Wall Street Journal*, March 10, 1989, A1 & A5.

[25] Eastern used two tactics to weaken the resolve of the striking pilots. First, it began hiring and training replacement pilots ("Eastern Returns to Court, Plans Pilot School," *The Dallas Morning News*, March 27, 1989, D1). Second, mirroring a move made six years ago by Lorenzo, Eastern sought the bankruptcy court's permission to abrogate its contract with the ALPA (B. O'Brian, "Eastern Air Seeks to End Contract with Pilots Union," *The Wall Street Journal*, June 22, 1989, A2).

[26] B. O'Brian, "Eastern Airlines Pilots Recall Head of Union," *The Wall Street Journal*, September 11, 1989, B10.

[27] For details about Trump's offer, see C. Harlan, "America West Ends Eastern Shuttle Bid," *The Wall Street Journal*, May 25, 1989, A3. For specifics about the asset sales, see A.Q. Nomani and C. Harlan, "Eastern Air Said To Be Set to Restart Additional Flights," *The Wall Street Journal*, June 19, 1989, A3 & A6; C. Harlan, "Bankruptcy Trustee in Eastern Air Case Postpones Appointment of an Examiner," *The Wall Street Journal*, April 5, 1989; C. Harlan, "Eastern Talks with American on Route Sales," *The Wall Street Journal*, June 7, 1989, C6; M. Zimmerman, "Airline Clears Hurdle in Route Quest," *The Dallas Morning News*, March 8, 1990, D1 & D5; B. O'Brian and J. Valente, "Eastern to Sell Routes, Gates for $85 Million," *The Wall Street Journal*, March 9, 1989; C. Harlan, "Eastern Creditors Seek Guarantees on Sales Proceeds," *The Wall Street Journal*, May 18, 1989, A2; B. O'Brian and T. Petzinger, "Going for Broke. Bankruptcy Strategy for Eastern Airlines Could Fail Lorenzo," *The Wall Street Journal*, March 10, 1989, A1 & A5.

[28] See B. O'Brian, "Lorenzo Set to Sell More Eastern Assets," *The Wall Street Journal*, May 26, 1989, A4. Interestingly, the bankruptcy court examiner, David I. Shapiro, investigated 15 transactions from 1987 onward, and found that in 12 transactions that "Texas Air transferred assets with a value of between $285 million and $403 million without giving Eastern fair value for them" (B. O'Brian, "Texas Air Paid Eastern Too Little, Examiner Finds," *The Wall Street Journal*, March 2, 1990). Whether to compensate for these actions or merely to shore up Eastern's losses, Texas Air Corporation has agreed to pay Eastern Airlines $280 million (see "Examiner's Letter Aids Texas Air," *Lubbock Avalanche-Journal*, March 6, 1990, 4-D).

[29] A.D. Marcus and B. O'Brian, "Eastern Indicted Over Failures in Maintenance," *The Wall Street Journal*, July 26, 1990, A2.

[30] See, for example, the accounts of both unions' efforts in J. de Cordoba, "Eastern Air's Striking Pilots Stand Firm Despite Disappointment Over Failed Deal," *The Wall Street Journal*, April 17, 1989, B3 and B. O'Brian, "Lorenzo Set to Sell More Eastern Assets," *The Wall Street Journal*, May 26, 1989, A4.

[31] For example, Flyfaire Inc. filed for Chapter 11 bankruptcy because it relied on Eastern Air for 70 percent of its tours ("Eastern Woes Ground Tour Operators," *The Dallas Morning News*, March 20, 1989, 2D). One commuter airline that served as a feeder to Eastern was Precision Airlines of Manchester, New Hampshire which suspended all operations in March 1989. Also, Metro Airlines faced a drop of 15.2 percent of its air traffic in March 1989

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because of its affiliation with Eastern's shuttle. To ensure its survival, Metro bought two other commuter airlines in April 1989 and signed a code-sharing agreement with Trans World Airlines to supply commuter service to 23 Northeast cities. See "Metro Airlines Buys Two Northeast Carriers, Has Pact with TWA," *The Wall Street Journal*, April 12, 1989.

[32] R. Lowenstein, "Caution: Holes in Texas Air-Eastern Wall," *The Wall Street Journal*, March 9, 1990, C1 & C2. For Eastern's size in early 1989 see J. Dahl, "Big Disruptions Loom in Eastern Strike," *The Wall Street Journal*, March 3, 1989, B1; its total market share in 1989 was only 2.9 percent (see D. Nather, "Airlines Using System to Lock Out Competition," *The Dallas Morning News*, February 25, 1990, 1H & 2H).

[33] See W. Lambert and B. O'Brian, "Trustee Named to Take Helm of Eastern Air," *The Wall Street Journal*, April 19, 1990, A3 & A6. Lorenzo plans to sell his stake in Continental Airlines Holdings Inc. (formerly Texas Air Corp.) to Scandinavian Air; see B. O'Brian, "Lorenzo Plans to Sell Continental Air Stake to Scandinavian Air," *The Wall Street Journal*, August 9, 1990, A1 & A4.

[34] Interestingly, to gain back customers, Eastern offered travel agents lucrative inducements—for example, bonus payments and sometimes 15 percent commissions, as well as guaranteeing cash refunds on tickets. See B. O'Brian, "Eastern Airlines Acts to Guarantee Refunds on Tickets," *The Wall Street Journal*, February 6, 1990, A4 and J. Dahl, "Eastern Hits Turbulence on the Ground as Travel Agents Steer Fliers Elsewhere," *The Wall Street Journal*, February 20, 1990, B1 & B4.

[35] W. Zellner and A. Berstein, "How GM and the UAW Kept From Butting Heads," *Business Week*, October 26, 1987, 32.

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