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CHAPTER

2 A Stakeholder Approach and Business Ethics

"A year after the *Exxon Valdez* ripped open its bottom on Bligh Reef [off the Alaskan coast] and dumped 11 million gallons of crude oil, the nation's worst oil spill is not over. . . . Like major spills in the past, this unnatural disaster sparked a frenzy of reactions: congressional hearings, state and federal legislative proposals for new preventive measures, dozens of studies and innumerable lawsuits" (Dumanoski 1990). The grounding of the tanker on March 24, 1989, spread oil over more than 700 miles. "The disaster fouled waters and shorelines . . . damaging one of the world's major fisheries and killing more than 36,000 migratory birds including at least 100 bald eagles" (Rawkins 1990). A grand jury indicted Exxon in February 1990. At that time the firm faced fines totaling over $600 million if convicted on the felony counts. More than 150 lawsuits and 30,000 damage claims were reportedly filed against Exxon, and most were not settled by July 1991. The charge that the captain of the *Valdez*, Joseph Hazelwood, had a blood–alcohol content above 0.04 % was dropped, but he was convicted of negligently discharging oil and ordered to pay $50,000 restitution to the state of Alaska and serve 1,000 hours cleaning up the beaches. Exxon executives and stockholders have been embroiled with courts, environmental groups, the media, and public groups over the crisis. Exxon has paid $300 million in damages to 10,000 commercial fishermen, business owners, and native Alaskan villages. (In May 1991, Exxon's first-quarter profits were reported at $2.24 billion.)

2.1 WHY A STAKEHOLDER APPROACH TO BUSINESS ETHICS?

The *Exxon Valdez* incident illustrates the magnitude of problems and issues a large corporation faces in a crisis; this situation provides a window into the combined economic, political, environmental, and moral dimensions of interactions between a corporation and its stakeholders. Moreover, an incident that begins as an industrial problem can quickly escalate to societal and even international proportions. What method(s) can best be used to understand and evaluate who is right, who is wrong, and what costs must be incurred by whom in resolving issues of justice, rights, and fairness in such complex situations? "Rightness" and "wrongness" are not always easy to determine in moral dilemmas. As Abraham Lincoln stated, "The true role, in determining to embrace or reject anything . . . is not whether it have any evil . . . in it, but whether it have more evil than of good. . . . There are few things wholly evil or wholly good."

The **stakeholder approach** is an analytical way of observing and explaining how different constituencies are affected and affect business decisions and actions. The stakeholder approach as applied to the moral

management of organizational stakeholders is based on the view that profit maximization is constrained by justice, that regard for individual rights should be extended to all constituencies of business that have a stake in the affairs of business (Bowie and Duska 1991).

Underlying the stakeholder approach is the ethical imperative that businesses are mandated in their fiduciary relationships to their stockholders and shareholders to act in the best interests and for the benefit of their customers, employees, suppliers, and stockholders and to respect and fulfill these stakeholders' rights (Evan and Freeman 1988). In this chapter, we use the stakeholder approach as a tool for analyzing complex ethical dilemmas that call for moral (as well as political and economic) judgment, as the *Exxon Valdez* case exemplifies. In Chapter 3, we present ethical decision-making principles and criteria that stakeholders can use to make choices and that observers can apply to examine decisions various stakeholders made or can make.

The stakeholder approach, then, is a method for mapping and managing the complex moral relationships between a corporation's strategic activities and those who affect and are affected by such actions (Freeman 1984). Why use a stakeholder approach? The stakeholder approach is a response to the growth and complexity of the modern corporation and its influence on the environment, the economy, and the public. A more familiar way of understanding corporations is a "stockholder" approach that focuses on financial and economic relationships; however, a stakeholder approach includes moral, political, ecological, and human welfare interests as well as economic factors. Both approaches inform management about the strategic and ethical status and direction of a company, division, or unit.

In this chapter, we focus on the stakeholder approach as a means of studying managers' social and moral responsibility strategies, actions, and outcomes toward other stakeholders. The stakeholder approach is a pragmatic way of understanding multiple, competing political, economic, and moral claims of a host of constituencies. The aim here is to familiarize you with the framework so that you can apply it in the classroom and in actual news-breaking events that appear in press and in the media. Even though you may not be an executive or manager, the framework can enable you to see and understand complex corporate dealings, events, and crises in the immediate environment more clearly. And, as will be discussed later in the chapter, the stakeholder analysis can be used in smaller units and groups within a company. In fact, individuals are also stakeholders in organizations. While this chapter focuses on upper-level and functional area managers as stakeholders who formulate and direct corporate strategy, in Chapters 3 and 5, we will discuss the individual employee and manager as stakeholders. Our first task is to understand the logic and use of the stakeholder approach in general. We will then discuss how this approach can be used in the moral management of organizational stakeholders, since this is the focus of this book. Chapter 3 provides ethical principles that you can use to evaluate the moral criteria of strategies managers use in responding to different stakeholders.

In an earlier industrial age, when business owners were concerned more with basic production relationships, there was less need for a framework to understand a company's dealings with a limited number of suppliers and customers. In the present technological and information age, corporate activities affect the public in wide-ranging ways. Corporate activities are under the scrutiny of the media, lobbying groups, and sophisticated consumers who can respond legally, morally, and economically to enterprises. The example of Exxon's oil spill illustrates how that firm's executives had to address a host of groups—and lawsuits—who had a wide range of "stakes" (that is, interests) in how the company handled the incident. The number of constituencies and stakeholders Exxon had to address reflects the complexity of the business environment in the 20th century.

The *Exxon Valdez* incident also shows that in a pluralistic, democratic society, power is diffused across groups, individuals, organizations, and institutions (Carroll 1989, 6, 7). There is, in fact, no one central or absolute source of authority to direct, unify, or evaluate competing interests between a company and its stakeholders, especially in a democratic, pluralistic, and capitalist society such as the United States. The government and legal systems often play roles in this process, but more often than not these roles operate after the fact. In an open-market system, special interests, lobbyists, and the media are significant forces that influence corporate decisions. In such a complex pluralistic society, corporate leaders and those who strive to understand and monitor corporate activities need a method that helps them understand and "keep score" with each of their stakeholder's strategies and power relationships in crises and events that affect the public and the business. The stakeholder analysis is one approach that is used for these purposes. Just as important, it is a method that can be used to identify the moral reasoning of managers and their stakeholders. Stakeholder welfare, rights, and responsibilities can be identified and monitored in given situations. Chapter 5 also presents "issues management" and "crises management" frameworks that can be used with the stakeholder analysis.

2.2 STAKEHOLDER ANALYSIS DEFINED

The **stakeholder analysis** is a framework that enables users to map and then manage corporate relationships (present and potential) with groups who affect and are affected by the corporation's policies and actions. A stakeholder analysis does not have to result from a crisis situation. It can be used as a planning method to anticipate actions and reactions over events and policy outcomes. As will be explained later, a stakeholder analysis is not limited in its use to large enterprises. One goal of a stakeholder analysis from a firm's perspective is to create "win–win" situations for itself and its stakeholder relationships. By "win–win" we mean moral decisions that are profitable for all constituencies within the constraints of justice, fairness, and economic considerations. In reality, this does not always happen.

Stakeholder Analysis: A Strategic and Moral Management Function

Stakeholder analysis is part of the strategic management function of a firm. The analysis can be used for a number of purposes: here, we emphasize the use of stakeholder analysis for identifying and managing social responsibility roles and relationships between a company and its constituents in a given or projected situation in which exchanges between the firm and external groups are concerned. As in the *Exxon Valdez* incident, using a stakeholder analysis forces and opens economic and political relationships into wider legal, moral and social responsibility issues (and vice versa). For example, the following questions regarding the *Valdez* crisis can be posed: What effect on the judicial system will this extended case have? Why was the initial settlement overturned? What are the limits of the tort system in the larger political system?*

The analysis usually begins with economic, political, or ecological issues and then evolves into social responsibility and ethical decisions when questions of human and social costs and benefits, equity, and justice are raised.

Stakes

A **stake** is any interest, share, or claim a group or individual has in the outcome of a corporation's policies, procedures, or actions toward others.

*Special thanks to Lisa Newton for suggesting these questions in an early review of the manuscript.

Stakes and claims can be based on legal, economic, social, moral, technological, ecological, political, or power interests (Carroll 1989, 57; Weiss 1986). Stakes of stakeholders are not always obvious or explicit. The physical health of a community may, for example, be at stake when a corporation decides to empty toxic waste near residential sites. Stakes—actual and potential—must be identified in the analysis.

There are also stakes that are present, past, and future oriented. For example, stakeholders may seek compensation over a firm's past actions, as is the case with claimants whose lawyers recently argued that certain airlines owed their clients monetary compensation after having threatened their emotional stability when pilots announced impending disaster (engine failure) that, subsequently, did not occur. Stakeholders, on the other hand, may seek future claims; that is, they may seek injunctions against firms announcing plans to drill oil or build nuclear plants in designated areas.

Stakeholders

A **stakeholder** is "any individual or group who can affect or is affected by the actions, decisions, policies, practices, or goals of the organization" (Freeman 1984, 25). The **primary stakeholders** of a firm include its owners, customers, employees, and suppliers. Also of primary importance to a firm's survival are its stockholders and board of directors. The chief executive officer (CEO) and other top-level executives can be stakeholders, but in the stakeholder analysis, they are generally considered to be actors and representatives of the firm. **Secondary stakeholders** include all other interested groups such as the media, consumers, lobbyists, courts, governments, competitors, the public, and society. In the *Exxon Valdez* oil spill, stockholders also had an ecological stake in the economic consequences of how lawsuits were settled against the company; local communities had a stake in their shoreline and wildlife; local, state, and federal courts had stakes in the legality, liability, and future rulings on this and future such incidents; local fishermen had a stake in their economic survival; Congress had stakes in serving the competing interests of oil company lobbyists as well as the public good.

Stakeholders also have stakeholders. For example, Exxon gas station operators had to face angry clients and neighbors who perceived the company as negligent and unconcerned about the environment. Identifying and managing stakeholders requires understanding the involved groups' motivations and the interests of all stakeholders. By acknowledging the stakeholders of the stakeholders, we can understand

Figure 2-1 The Importance of Various Organizational Stakeholders to Managers*

	SUPERVISORY MANAGERS	MIDDLE MANAGERS	EXECUTIVE MANAGERS
Customers	5.57	6.10	6.40
Myself	6.28	6.29	6.28
Subordinates	6.06	6.30	6.14
Employees	5.93	6.11	6.01
Boss(es)	5.72	5.92	5.82
Co-Workers	5.87	5.82	5.81
Colleagues	5.66	5.78	5.75
Managers	5.26	5.56	5.75
Owners	4.07	4.51	5.30
General Public	4.38	4.49	4.52
Stockholders	3.35	3.79	4.51
Elected Public Officials	3.81	3.54	3.79
Government Bureaucrats	3.09	2.05	2.90

*Scale of 1 to 7 (1=lowest; 7=highest).

Source: Barry Z. Posner, and Warren H. Schmidt. "Values and the American Manager: An Update." *California Management Review* 26, no. 2 (Spring 1984). Copyright 1984 by The Regents of the University of California. Reproduced with permission of The Regents.

the sources of influence and power of the major interest groups in our analysis.

Who Are the Most Important Stakeholders?

Who are the most important stakeholders for executive, middle-level, and supervisory managers in America? Figure 2-1 shows the results from a study that surveyed over 6,000 managers and asked them to rank whom they considered most important.

Supervisory managers saw themselves as most important, followed by subordinates, employees, and coworkers. Stockholders ranked near the bottom. *Middle managers*, similarly, saw themselves and subordinates as the most important stakeholders, followed by employees and customers. This group also ranked stockholders near the bottom. *Executive managers* ranked customers first and themselves second, followed by employees. The authors of the survey concluded, "The stereotype of managers as running the nation's corporations for the primary benefit of their stockholders does not seem to be borne out by the data" (Posner and Schmidt 1984, 207). It cannot be concluded from these results that managers see themselves as more important than the survival of their company or its profits. These results do suggest, however, that profit may not be the only concern of managers and that other significant stakeholders can influence profitability (Steiner and Steiner 1988).

Similarly, in a *Wall Street Journal* article, "How Do You Spell Success? Executives Dismiss Money As a Measure," a Harrison Conference Services survey reported that executives most wanted *respect* from bosses, peers, and subordinates. The article quoted executives who stated "support for a charitable foundation," "job satisfaction," "self-respect," and "satisfying stockholders" as other important indicators of success.

Again, profit is important and necessary, but perhaps is not always the only or the most important indicator of success for executives. There also seems to be a belief that money is a result—not necessarily a primary cause—of success. These findings taken together strongly suggest that a "stakeholder" approach, in addition to a "stockholder" approach, is essential for managing corporate policy and relationships.

2.3 HOW TO EXECUTE A STAKEHOLDER ANALYSIS

Assume you are the CEO working with your top managers in a firm that has just been involved in a major controversy of international proportion. The media, some consumer groups, and several major customers have called you. You want to get a handle on the situation without reverting to unnecessary "fire-fighting" management methods. A couple of your trusted staff members have advised you to adopt a planning approach quickly, while responding to immediate concerns, in order to understand the "who, what, where, when, and why" of the situation before jumping to many hasty "hows." Your senior strategic planner suggests you lead and participate in a stakeholder analysis. What is the next step?

The stakeholder analysis is a series of steps aimed at:

1. Mapping stakeholder relationships
2. Mapping stakeholder coalitions
3. Assessing the nature of each stakeholder's interest
4. Assessing the nature of each stakeholder's power
5. Constructing a matrix of stakeholder moral responsibilities
6. Developing specific strategies and tactics
7. Monitoring shifting coalitions (Frederick et al. 1988)

Figure 2-2 Sample Questions for "Stakeholder Review"

1. Who are our stakeholders currently?
2. Who are our potential stakeholders?
3. How does each stakeholder affect us?
4. How do we affect each stakeholder?
5. For each division and business, who are the stakeholders, etc.?
6. What assumptions does our current strategy make about each important stakeholder (at each level)?
7. What are the current "environmental variables" that affect us and our stakeholders [inflation, GNP, prime rate, confidence in business (from polls), corporate identity, media image, and so on]?
8. How do we measure each of these variables and their impact on us and our stakeholders?
9. How do we keep score with our stakeholders?

Source: R. Edward Freeman. *Strategic Management: A Stakeholder Approach.* Boston: Pitman, 1984, 242. Reproduced with permission of the publisher.

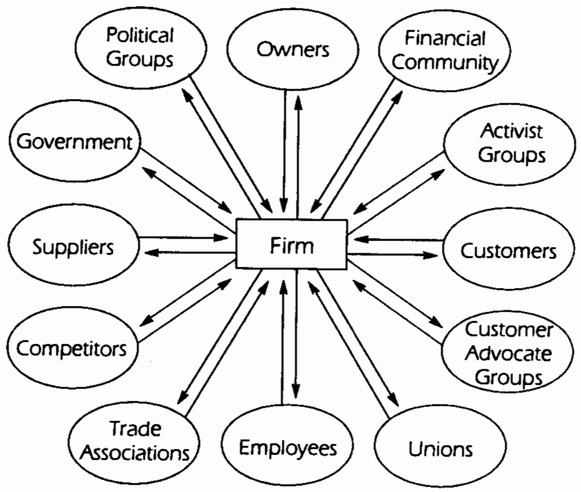
Each step is described in the following sections. Let us explore each one and then apply them in our continuing scenario example.

Step 1. Mapping Stakeholder Relationships R. Edward Freeman (1984) offered questions that help begin the analysis of identifying the major stakeholders (see Figure 2-2). The first five questions, in particular, offer a quick "jump start" on the analysis. (Questions 6 through 9 may used in later steps when you assess the nature of each stakeholder's interest and priorities.)

Let us continue our example with you as CEO. While brainstorming questions 1 through 5 with those individuals whom you have selected in the firm and who are most knowledgeable, current, and close to the sources of the problems and issues at hand, you may want to draw a stakeholder map and fill in the blanks. Note that your stakeholder analysis is only as valid and reliable as the sources and process you use to obtain your information. As a first pass, using only internal staff will get the process going. As more controversial, incomplete, or questionable issues arise, you may wish to go outside your immediate core planning group to obtain additional information and perspective. A general picture of an initial stakeholder map is shown in Figure 2-3.

If you were the CEO of Exxon, your map may resemble the one in Figure 2-4, a hypothetical stakeholder map presented by a student assuming the role of David Glickman, Exxon's public relations executive.

Figure 2-3 Stakeholder Map of a Very Large Organization



Source: R. Edward Freeman. *Strategic Management: A Stakeholder Approach.* Boston: Pitman, 1984, 25. Reproduced with permission of the publisher.

Step 2. Mapping Stakeholder Coalitions After identifying and mapping the stakeholders who are directly and indirectly involved with your firm over the specific incident you are addressing, the next step is to determine and map any coalitions that have formed. Coalitions among and between stakeholders form around issues and stakes that they have—or seek to have—in common. Different interest groups and lobbyists will sometimes join forces against a "common enemy." Competitors may also join forces if they see an advantage in number. In reference to the Exxon example in Figure 2-4, it would not be unlikely to see Alaskan fishermen, consumers, and unemployed groups from the crisis form a coalition with lobbyists and political action committees (PACs). Mapping actual and potential coalitions around issues can help you, as the CEO, anticipate and design strategic responses toward these groups—before or after they form.

Step 3. Assessing the Nature of Each Stakeholder's Interest Step 3, assessing the nature of each stakeholder's interest, and Step 4, assessing the nature of each stakeholder's power, overlap to some extent. Figure 2-5 is a guide for determining the nature of each stakeholder's interest.

Figure 2-4 *Exxon Valdez Stakeholder Map*

Reproduced with permission of David Glickman and Professor Kathryn Rogers, Pitzer College, Claremont, California.

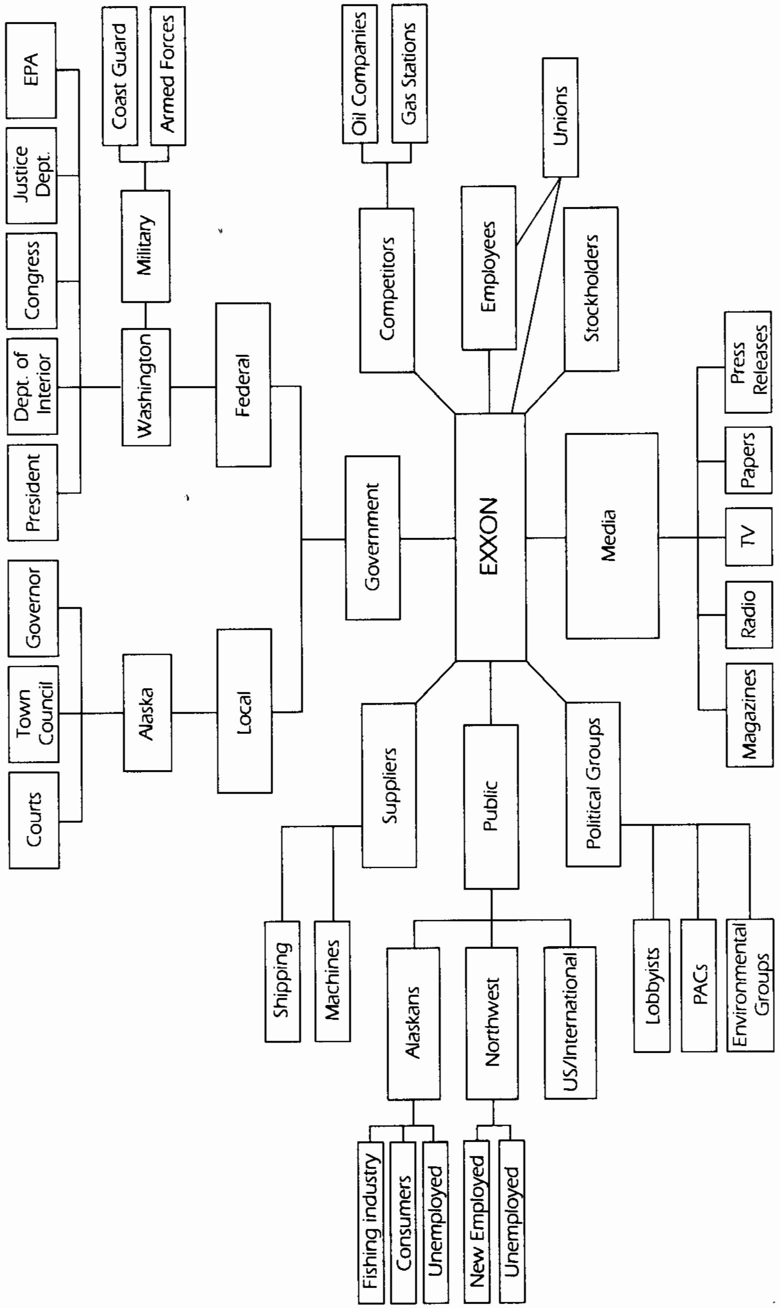


Figure 2-5 A Stakeholder Audit

	SUPPORTERS (ACTIVE)	UNCOMMITTED (NONACTIVE)	OPPOSITION (ACTIVE)
Who are the stakeholders?			
Currently active?			
Not active?			
Potentially active			
For or Against?			
Actions:			
What are they doing, e.g., what pressures and procedures are they using, and what actions have they taken to get what they want?			
What are the thresholds between their indifference and activism? What could trigger their response? What are their sensitive areas?			
What are they asking for; what will they ask for; what do they want—i.e., what are their objectives?			
Beliefs:			
What do their executives believe in? Is their knowledge of us accurate or inaccurate?			
What assumptions do they make about us? What assumptions about them are *implicit* to our strategy?			
How do they think we affect their success, and they ours?			
What is their power relative to us? What is our power over them?			

When identifying the "supporters" (active and uncommitted) and the "opposition" in Figure 2-5, we have already begun to assess the relative power of each stakeholder's interests.

In our example, you as Exxon CEO with your staff may determine that your supporters in the *Exxon Valdez* oil spill crisis might be some of your stockholders and employees. Your opposition, or those who may seek to further disrupt your operations and public image, might be two PACs, three media companies, and so on. By systematically completing the categories through brainstorming the actions, beliefs, cooperative potential, and stakes of your stakeholders, you force a broader, more

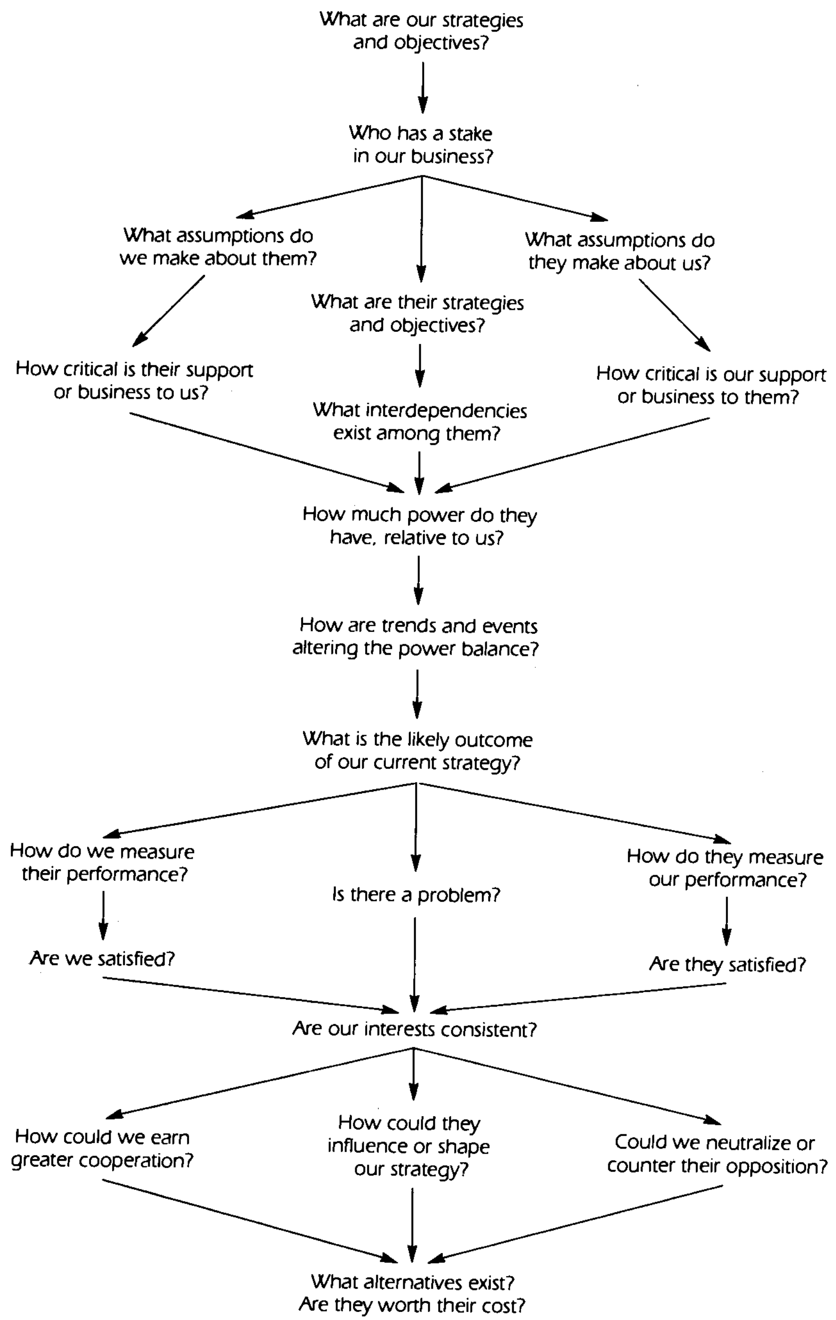
	SUPPORTERS (ACTIVE)	UNCOMMITTED (NONACTIVE)	OPPOSITION (ACTIVE)
How do they measure our performance, and we measure theirs?			
What do we really want? Are these objectives legitimate? Are they satisfied? Are we satisfied? What do they really want?			
How will time and current trends affect their satisfaction, relative power, and activism?			
Cooperative potential:			
With which of our stakeholder sets are they related or dependent?			
What differences are there between them and us, or our other stakeholders? Are these differences fundamental or superficial?			
How could they be influenced, and by whom, at what cost?			
Stakes:			
What is their stake in us, and what is our stake in them? How important are these stakes?			
What is their real power in our affairs? Is theirs an *equity* interest, or is it economic? Do they seek influence for some other reason?			
What power do we have in their affairs?			

Source: Kenneth Hatten and Mary Louise Hatten. *Effective Strategic Management*. Englewood Cliffs, N.J.: Prentice Hall, © 1988, 116. Reproduced with permission of Prentice Hall.

objective picture of the situation, the players, and your firm's potential and actual role in the situation.

Step 4. Assessing the Nature of Each Stakeholder's Power This part of the analysis asks, "What's in it for whom? Who stands to win, lose, or draw over certain stakes?" Three types of power stakeholders can use are (1) voting power, (2) political power, and (3) economic power (Freeman 1984). For example, owners and stockholders can vote their choices to affect the firm's decisions in the *Exxon Valdez* situation. Federal, state, and local governments can exercise their political power

Figure 2-6 Stakeholder Analysis



Source: Kenneth Hatten and Mary Louise Hatten. *Effective Strategic Management*. Englewood Cliffs, N.J.: Prentice Hall, © 1988, 114. Reproduced with permission of Prentice Hall.

by increasing regulations over shipping firms to avert future oil spills. Consumers can exercise their economic power by boycotting Exxon's products. What other sources of stakeholder power exist?

Figure 2-6 provides a series of short questions that assist in identifying and assessing the power of different groups' stakes. (Note that some of the questions in Figure 2-6 may repeat or overlap earlier probes.)

This part of the analysis forces you to attempt to identify your so-called allies' and opponents' strategies regarding their issues toward your firm. It also assists you in questioning your potential strategies toward each stakeholder and asks you to identify the groups with whom you wish to cooperate, neutralize, or counter over particular issues and claims. For example, in the *Exxon Valdez* incident, you may discover that a powerful lobbyist group that is organizing a lawsuit against Exxon could be neutralized if you met with their leaders, learned about their grievances, and negotiated demands; negative press could possibly be averted if you faced the issues directly with two particular stakeholders. Again, this step asks you to assess the nature of each stakeholder's power. This information will enable you to decide later how, when, and who from Exxon should respond to these stakeholders.

Step 5. Constructing a Matrix of Stakeholder Moral Responsibilities After mapping stakeholder relationships and coalitions and assessing the nature of each stakeholder's interest and power, the next step is to determine what responsibilities and moral obligations your company has to each stakeholder. Carroll (1989, 72) constructed a matrix of stakeholder responsibilities. It is a simple depiction to visualize and to draw. Visualize a graph with two axes. The stakeholders (owners, customers, employees, community, public, activist groups, and others) are listed down the left-hand column, and the nature of your firm's responsibilities (that is, economic, legal, ethical, and voluntary) to each stakeholder is placed across the top, as shown in Figure 2-7. For example, as Exxon's CEO, you may see the firm's *economic responsibility* to the owners as preventing as many costly lawsuits as possible. *Legally*, you want to protect the owners from corporate as well as personal liability and damage. This would entail proactively negotiating disputes outside the courts, if possible, in an equitable way to all. *Ethically*, you could see Exxon advising its owners to show their responsibility by paying to help clean up the shoreline, by establishing policies to prevent another such catastrophe from occurring, by helping compensate Alaskan fishermen who lost work, and so on. Chapter 3 explains ethical principles and guidelines that can assist in this type of decision making. *Voluntarily*, for example, you may

Figure 2-7 Stakeholder Moral Responsibility Matrix

Stakeholders	Legal	Economic	Ethical	Voluntary
Owners				
Customers				
Employees				
Community Interest Groups				
Public (Citizens at Large)				

Nature of Focal Company Responsibilities

also advise Exxon's owners to show responsibility by publicly announcing their plans and roles in resolving the crisis equitably and by offering services and remuneration to affected local communities. This process continues until you have completed matching the economic, legal, ethical, and voluntary responsibilities you have and can develop strategies toward each stakeholder in the situation.

Step 6. Developing Specific Strategies and Tactics Using your results from the preceding step, you can now proceed to outline the specific strategies and tactics you wish to use with each stakeholder. (These strategies are based on Freeman [1984] and Carroll [1989].)

First, you will consider whether to approach each stakeholder directly or indirectly. Second, you need to decide whether to take the offensive or defensive. Third, you will determine whether to accommodate, negotiate, manipulate, resist, avoid, or do nothing. Finally, you will decide what combination of strategies you should employ with each stakeholder. Again, while developing specific strategies, it is important to keep the following points in mind: (1) Your goal is to create a win–win set of outcomes, if possible. However, this may mean economic costs to your firm if, in fact, members of your firm were

responsible to certain groups for harm caused by or as a consequence of their actions. (2) Ask "What is our business? Who are our customers? What are our responsibilities to the stakeholders, to the public and to the firm?" Keep your mission and responsibilities in mind as you move forward. (3) Consider what the probable consequences of your actions will be. For whom? At what costs? Over what time period? Ask "What does a win–win situation look like for us?" (4) Keep in mind that the *means* you use are as important as the *ends* you seek, that is, how you approach and treat each stakeholder can be as important as what you do with and to them. Specific strategies can now be articulated and assigned to corporate staff for review and implementation. Remember, social responsibility is a key variable, as important as the economics and politics of a decision, since social responsibility links to costs and benefits in other areas as well. At this point you can ask to what extent your strategies are just and fair, and you can consider the welfare of the stakeholders affected by your decision. We will discuss ethical principles in more detail in Chapter 3.

In actual experience, executives use a range of strategies, especially in crisis situations over time, to respond to external threats and stakeholders. Their strategies often are short-sighted and begin in a defensive or reactive mode. In observing and using a stakeholder analysis, it is important to question why executives respond to their stakeholders as they do, especially in threatening situations (for example, the silicon gel breast implant incidents that Dow Corning faced). Again, following the questions and methods in this chapter systematically helps you understand why key stakeholders respond as they do in critical incidents.

Step 7. Monitoring Shifting Coalitions Because time and events can change the stakes and stakeholders, you will want to monitor the evolution of the issues as they are affected by media exposure, politics, economics, legal actions, and public reaction. Creating and updating a "time line" can be helpful. One method is simply to draw a horizontal line on a paper, starting at the beginning of the situation, crisis or incident, and place points from left to right with abbreviations below or above the line that identify the time (month, day, year, or combination), the major event that occurred, and the key player(s). A vertical time line is illustrated in Figure 2-8, which is a chronology of events in the Savings and Loan (S & L) crisis. In this illustration, the year is listed on the left-hand column and the corresponding key events on the right. Time lines can help you track decisions to maintain perspective and decide prospective strategies.

Figure 2-8 Time Line of the S&L Crisis, 1980–1990

YEAR	S&L FAILURES	KEY EVENTS
1980	11	Volcker's Fed drives interest rates up to battle inflation, beginning three-year squeeze that left many S&Ls insolvent.
1981	28	Federal Home Loan Bank Board invents regulatory accounting, turning huge losses into "capital," delaying day of reckoning for many years.
1982	63	Congress passes Garn–St. Germain Act, partly deregulating thrifts; several state legislatures totally deregulate the industry.
1983	36	Taggart named California S&L Commissioner.
1984	22	Knapp ousted at American Savings.
1985	31	Energy bust begins, unmasking bad investments by Texas S&Ls; Empire Savings of Mesquite becomes first big failure from reckless lending.
1986	46	Congress fails to adopt Reagan administration plan to raise $15 billion to pay for closing of insolvent S&Ls.
1987	47	Congress adopts watered-down plan to raise $10 billion, but limits spending and protects certain insolvent S&Ls.
1988	205	Bank Board sells many failed thrifts by issuing loans to acquirers; estimated costs: $39 billion. Northeast bust begins.
1989	328	Congress passes sweeping rescue and reregulation legislation, raising $50 billion for more closings.
1990	181	Estimated cost of 1988 deals rises to roughly $70 billion.
TOTAL	998	Estimated total losses: $200 billion.

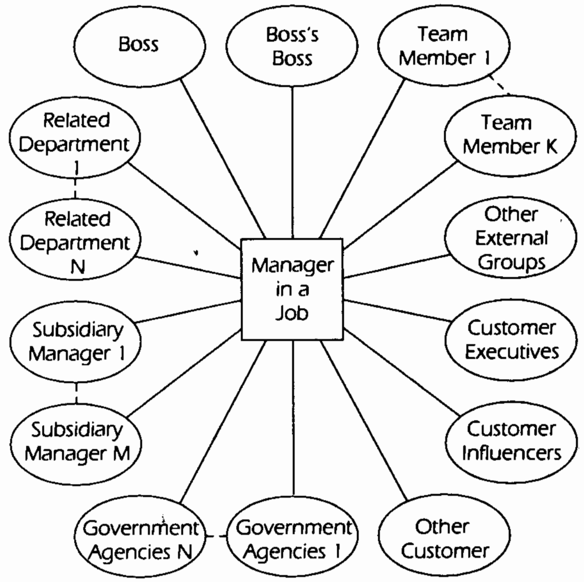
NOTE: Failures include all liquidations, assisted mergers, and conservatorships.

Source: *The Wall Street Journal*, November 2, 1990, A4.

Summary of Stakeholder Analysis

You have now completed the basic stakeholder analysis and should be able to proceed with strategy implementation in more realistic, thoughtful, interactive, and responsible ways.

Figure 2-9 Functional Area Manager Stakeholder



Source: R. Edward Freeman. *Strategic Management: A Stakeholder Approach.* Boston: Pitman, 1984, 218. Reproduced with permission of the publisher.

The stakeholder analysis provides a rational, systematic basis for understanding economic, political, social, and moral issues involved in complex relationships between an organization and its constituents. It helps to guide and structure strategic planning sessions and to decide how to meet the moral obligations of all stakeholders. The extent to which the resultant strategies and outcomes are moral and effective for a firm and its stakeholders depends on many factors, including the values of its leaders, the power, legitimacy, the uses of available resources, and the exigencies of the changing environment.

2.4 MORAL RESPONSIBILITIES OF FUNCTIONAL AREA MANAGERS

One goal of a stakeholder analysis is to force organizational managers to articulate the moral responsibility of their company's and their own professional obligations to their different constituencies. It also focuses the enterprise's attention and moral decision-making process on external events. The stakeholder approach applies internally as well—especially managers in a firm handle their complex stakeholder relationships, individual managers can begin to create value and realize corporate moral and legal obligations toward stakeholders. Third, the basis for increasing the quality of cross-functional communication and integration can be developed. The process and results of the stakeholder analysis can provide a platform for opening communication channels to discuss stressful, unrealistic, or immoral expectations, problems, and pressures that often lead to illegal and unethical activities, such as creating faulty products, price-fixing, cheating, and lying. Finally, by identifying specific stakeholders' responsibilities, functional area managers can begin to see common patterns of pressures, resources, and ethical issues *across the firm.* An enterprise's moral identity and mission can be identified or reinforced. Moreover, managers can begin to think and operate with moral responsibility as they perform their work. These advantages create opportunities for corporate executives to develop and implement meaningful enterprise ethical codes, policies and procedures that set and maintain a moral corporate climate and culture.

2.5 EXECUTING A STAKEHOLDER ANALYSIS AS AN OBSERVER

We have discussed how to execute a stakeholder analysis from the perspectives of a corporate executive and an individual manager. As an observer or stakeholder outside or inside a company, or as a student who is executing a stakeholder analysis, this technique provides useful information and perspective toward understanding strategic political, economic, and moral relationships. The procedures and steps outlined in Section 2.2 are used by observers as well as by corporate members.

Questions and issues* that surface when executing a stakeholder analysis as an observer or student include the following:

1. Does the company have to be the center or focus of the analysis?
2. How detailed do the maps and analysis have to be?
3. What issues are the most important for each stakeholder and who determines this in a stakeholder analysis?

*These issues are based primarily on my experiences of teaching the stakeholder analysis and business ethics over several years to MBA students at Bentley College in Waltham, Massachusetts.

4. How objective or reliable can the analysis be if the primary responsibilities are not directly involved or questioned?
5. Can an analysis be done before or during an event?
6. What difference or value, especially regarding the use of ethics, can a stakeholder analysis add?

In response to the first question, "Does the company have to be the focus of the analysis?" the stakeholder analysis does focus primary and secondary strategic relationships around the CEO, the firm's executives, or a key manager. An individual employee stakeholder can also be the focus of an analysis if, at a microlevel, issues relating to employee rights or responsibilities in the workplace are at issue. Usually, it is a corporation or organization whose planned or unintentional acts command the attention of external groups and the public. It is, therefore, the corporation and its key executives whose actions with other stakeholders must be understood. This is especially the case when influential or comprehensive decisions must be made that affect the lives and welfare of many people, as in the *Exxon Valdez* example. This does not mean that other stakeholders, such as functional area managers, are less important or that we as observers cannot also refocus attention around any one of their positions and strategies. This can also be done.

The second question, "How detailed do the maps and analysis have to be?" can be addressed as follows: (1) Include only as much detail as is necessary to capture the essence of understanding the "who, what, where, when, why, and how" of stakeholder relations being studied and the primary issues at hand; (2) KIS: If we "keep it simple," the analysis will move along and not get bogged down in too much detail. There is no absolute rule about how detailed the analysis should be. This is a judgment call. A key concern is to have accurate, relevant, and timely information on the topic at hand; the abbreviation of this information on the maps is a tactical matter. Also, factors like time, effort, and monetary costs constrain our ability to have all available information on a stakeholder. Good judgment is needed.

Third, "What issues are the most important for each stakeholder, and who determines this in a stakeholder analysis?" A response to this question is also a matter of judgment. Results from issue identification are as valid and reliable as the methods used to collect the data and the collectors' responsibility and conscientiousness in determining the most pertinent issues. Also, having more than one competent and knowledgeable person involved and giving feedback in this process will result in a more objective approach and conclusions. If possible, circulate your issue list to those who can help you identify key issues. Use discretion, depending on the nature of your topic and the individuals with whom you are dealing.

Fourth, "How objective or reliable can the analysis be if the primary individuals or groups are not directly involved or questioned?" Obtaining information, impressions and perspectives from the major stakeholders and players is the primary objective in executing the analysis. However, this is not always possible. As is often the case with pollsters and political consultants in campaigns, stakeholders' strategies and tactics have to be sought from other sources. Your task must therefore involve as thorough and comprehensive an indirect investigation as possible. Again, your results and inferences are as valid and reliable as your methods, expertise, and conscientiousness. The closer you get to the primary sources, the more reliable your information should be.

Fifth, "Can an analysis be done before or during an event?" Yes. Your information in these instances is more tentative and variable. Your analysis becomes more of a monitoring or prediction report than a completed profile. However, this is more often the case in a stakeholder analysis than not. Corporate executives, strategic planners, and PR managers are also usually involved in a critical event before they turn to mapping it. They are not historians. This is one purpose of a stakeholder analysis. It is a type of field action research used for making strategic decisions and determining moral responsibility.

Sixth, "What difference or value, especially regarding the use of ethics, can a stakeholder analysis add?" Having an informed, comprehensive understanding of a corporation's strategic relationships to its stakeholders in a critical incident or event is better than having little or no information at all. Having a very biased or unreliable picture may also not be helpful. Again, the purpose of the stakeholder analysis as presented here is to gain a realistic understanding of strategic social responsibility relationships, options, and actions of a firm toward its constituents so that corporate leaders can act morally in their policy decisions. A stakeholder analysis provides a gathering of diverse perspectives and information pertaining to an event. One party's ethical judgments are not taken as absolute in such an analysis.

Also, using these methods helps the participants to (1) separate and discriminate among legal, political, economic, and moral issues and consequences of stakeholder actions and policies; (2) learn to use informed, ethical judgment in determining and managing moral obligations to stakeholders; (3) learn to separate facts from inferences; and (4) learn to evaluate the power, legitimacy, and motivations of organizational stakeholders' positions and strategies.

2.6 STAKEHOLDER ANALYSIS AND ETHICAL REASONING

Because the stakeholder analysis is an analytical method, there are no prescribed ethical principles or responsibility rules "built in." Ethical reasoning in the stakeholder analysis asks, "What is equitable, just, fair, and good for those who affect and are affected by business decisions?" Also, "Who are the weaker stakeholders in terms of power and influence? Who can, will, and should assist weaker stakeholders in making their voices and participation in the decisional process and outcomes heard?" Finally, the stakeholder analysis requires the focal or principal stakeholders to define and fulfill their ethical obligations to the affected constituencies.

Chapter 3 explains major ethical principles that can be used to examine individual motivation in resolving an ethical dilemma. While Chapter 3 focuses on the micro- or individual level of ethical reasoning, the logic underlying the ethical principles discussed can also be extended to a more macro- or policy level, as we will explain in that chapter.

SUMMARY

Organizations and businesses in this century have increased in complexity and power. Because of their numerous economic and noneconomic transactions with different groups in the environment, a method is required to understand an organization's moral obligations and relationships to its constituencies.

The stakeholder approach provides an analytical method for determining how various constituencies affect and are affected by business activities. The stakeholder model also provides a means for assessing the power, legitimacy, and moral responsibility of managers' strategies in terms of how they meet the needs and obligations of various stakeholder groups.

A stakeholder analysis is also a strategic management tool that allows firms to map and manage relationships with constituents in any given or projected situation. An individual or group is said to have a "stake" in a corporation if it possesses an interest, share, or claim in the outcome of that corporation's policies, procedures, or actions. A "stakeholder" is defined as an individual or group who can affect or be affected by the actions, policies, practices, or goals of the organization.

Recent studies have indicated that profits and stockholder approval may not be the most important driving forces behind management objectives. Job enrichment, concern for employees, and personal well-being are also important objectives.

The implementation of a stakeholder analysis involves a series of steps designed to help a corporation understand the complex economic, political, and moral factors involved in its obligations toward different constituencies.

The moral dimensions of traditional managerial functional area roles (marketing, research and development, manufacturing, public relations, and human resource management) are discussed from a stakeholder perspective. The stakeholder approach can assist functional area managers in resolving difficulties resulting from conflicts over individual rights and corporate economic objectives. This approach can assist managers to think through and chart morally responsible decisions in their work and toward the corporation and its stakeholders.

The use of the stakeholder analysis by an observer or third party is also presented as a means for understanding social responsibility issues between a firm and its constituents. Finally, ethical reasoning is discussed as it relates to the stakeholder approach.

Questions

1. Describe the stakeholder approach and method.
2. Define the term stakeholder. Give examples of primary and secondary stakeholders.
3. What changes have occurred since the industrial age that have facilitated the need for a stakeholder approach?
4. What are some of the types of power stakeholders can use to support their positions? Briefly explain these.
5. From the survey cited in the chapter, who do supervisory managers see as the most important stakeholders? Middle managers? Executive managers?
6. What are the traditional functional areas of management? Who are the principal stakeholders with whom each one deals? Could teams use a stakeholder approach in their project or business environment? Explain.
7. What are the reasons for encouraging functional area managers to use the stakeholder approach? Would these reasons apply to teams?
8. Identify six common questions that arise when executing a stakeholder analysis. Identify your questions regarding your use of this method.

Exercises

1. Describe a situation in which you were a stakeholder. What were the issues? What were your stakes? What was the outcome? Who won, who lost, and why?
2. Recollect your personal work history. Who was your manager's most important stakeholder(s)? Why? Did you agree or disagree?
3. Briefly invent your own corporation. What is the industry? Your environments? Your product or service? Trace through the steps of a stakeholder analysis and map out a stakeholder relationship. Describe the nature of your firm's responsibilities to each stakeholder.
4. Describe each of the steps used in a stakeholder analysis and apply this framework to an incident in the news or press (such as the *Exxon Valdez* oil spill).
5. Choose one of the traditional functional areas of management. Describe a dilemma involving this function from the news or a recent article. Discuss how a stakeholder model could assist in developing a resolution in your example.

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CHAPTER 3

Ethical Principles and Decision-Making Guidelines