CHAPTER 2

Strategic Management of Stakeholder Relationships

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Supply Chain Disruption Strains Stakeholder Relationships

Supply chain management is the coordination of all the activities involved with the flow of supplies and products from raw materials through to the end customer. This flow can be disrupted by a variety of events such as natural disasters, political conflicts, and pandemics. Due to the interconnected nature of the supply chain, disruptions can send the business world into a tailspin. Stakeholders, including customers, investors, employees, regulators, and suppliers, will ultimately judge how companies respond.

The COVID-19 pandemic caused an economic slowdown, resulting in mass layoffs and reduced production as offices, stores, and factories closed around the world. This started a domino effect that would devastate the supply chain. Many feared spending would decrease, but the pandemic simply shifted demand as consumer behavior changed. Instead of dining out, consumers stocked up on groceries to cook at home. Many consumers, however, were greeted with empty grocery store shelves because manufacturers had a difficult time redirecting products to where they were needed most. For example, with hotels, schools, coffee shops, and restaurants closed, dairy farmers resorted to dumping millions of gallons of milk in the early months of the pandemic because of the inability to shift their products from foodservice customers to retailers.

Meanwhile, despite having fewer resources available, factories ramped up production to meet the overwhelming demand for personal protective equipment (PPE) such as masks and gloves. As China, which produces half of all protective masks, exported PPE around the globe, the world found itself with a shipping container shortage. At the same time, an increase in online shopping led to clogged U.S. ports that were overwhelmed by too many ships. The increased port traffic exacerbated an existing truck driver shortage. Warehouses, factories, retailers, and many others struggled to hire workers, despite increasing wages. Product shortages led to shortages of other products, too. A microchip shortage, for example, caused auto manufacturers to cut production by more than 11 million vehicles which led to a shortage of rental cars.

Businesses and consumers have both reacted to widespread shortages by stockpiling and ordering earlier than necessary, further straining the system. The crippled global supply chain has made it clear that procurement is a major area for improvement. Communicating with and sharing data among stakeholders is critical to reducing disruptions and improving supply chain resiliency. Proactively identifying elements of the supply chain that would be at risk during a disruption could help organizations quickly secure additional inventory from either existing or new suppliers to avoid stockouts. Companies can offer greater transparency and provide suppliers with a clearer picture of their long-term needs for better visibility and a more efficient system.[1]

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Chapter Objectives

- Define stakeholders and understand their importance
- Distinguish between primary and secondary stakeholders
- Discuss the global nature of stakeholder relationships
- Consider the impact of reputation and crisis situations on social responsibility performance
- Examine the development of stakeholder relationships
- Explore how stakeholder relationships are integral to social responsibility

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As this example illustrates, most organizations have a number of constituents and a web of relationships that interface with society. In this case, companies must communicate frequently and transparently about supply chain disruptions to nurture stakeholder relationships. These stakeholders are increasingly expressing opinions and taking actions that have an effect on the industry's reputation, relationships, and products. Today, many organizations are learning to anticipate such issues and to address them in their strategies long before they become the subject of negative media stories.

In this chapter, we examine the concept of stakeholders and explore why these groups are important for today's businesses. First, we define stakeholders and examine primary, secondary, and global stakeholders. Then, we examine the concept of a stakeholder orientation to enhance social responsibility. Next, we consider the impact of corporate reputation and crisis situations on stakeholder relationships. Finally, we examine the development of stakeholder relationships implementing a stakeholder perspective and the link between stakeholder relationships and social responsibility.

Stakeholders Defined

In Chapter 1, we defined "stakeholders" as those people and groups to whom an organization is responsible—including customers, shareholders, employees, suppliers, governments, communities, and many others—because they have a "stake," or claim, in some aspect of a company's products, operations, markets, industry, or outcomes. These groups not only are influenced by businesses, but they also have the ability to influence businesses in return.

Responsibility issues, conflicts, and successes revolve around stakeholder relationships. Building effective relationships is considered one of the more important areas of business today. The stakeholder framework is recognized as a management theory that attempts to balance stakeholder interests. Issues related to indivisible resources and unequal levels of stakeholder influence and importance constrain managers' efforts to balance stakeholder interests.[2] A business exists because of relationships among employees, customers, shareholders or investors, suppliers, and managers that help them develop strategies to attain success. In addition, an organization usually has a governing authority, often called a "board of directors," which provides oversight and direction to make sure that the organization stays focused on objectives in an ethical, legal, and socially responsible manner. Corporate governance is discussed in Chapter 3. When misconduct is discovered in organizations, it is often found that in most instances, there is knowing cooperation or compliance that facilitates the acceptance and perpetuation of unethical conduct.[3] Therefore, relationships are associated not only with organizational success, but also with organizational failure to assume responsibility. These perspectives take into account both primary and secondary stakeholders, discussed later in this chapter.

The historical assumption that the foremost objective of business is profit maximization led to the belief that business is accountable primarily to shareholders and others involved in the market and economic aspects of an organization. Because shareholders and other investors provide the financial foundation for business and expect something in return, managers and executives naturally strive to maintain positive relationships with them.[4] In the latter half of the twentieth century, however, perceptions of business accountability evolved toward an expanded model of the role and responsibilities of business in society. The expansion included questions about the normative role of business, including: "What is the appropriate role for business to play in society?" and "Should profit be the sole objective of business?"[5]

Many businesspeople and scholars have questioned the role of social responsibility in business. Legal and economic responsibilities are generally accepted as the

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most important determinants of performance: "If this is well done," say classical economic theorists, "profits are maximized more or less continuously and firms carry out their major responsibilities to society."[6] Some economists believe that if companies address economic and legal issues, they are satisfying the demands of society and trying to anticipate and meet additional needs would be almost impossible. Milton Friedman was quoted as saying that "the basic mission of business [is] thus to produce goods and services at a profit, and in doing this, business [is] making its maximum contribution to society and, in fact, being socially responsible."[7] Friedman suggested that, although individuals guilty of wrongdoing should be held accountable, the market is a better deterrent than new laws and regulations that discourage firms from wrongdoing and punish them for it.[8] Thus, he diminished the role of stakeholders such as the government and employees in requiring that businesses demonstrate responsible and ethical behavior.

This form of capitalism has unfortunately been exported to many less-developed and developing countries without the appropriate concerns for ethics and social responsibility. Friedman's capitalism is a far cry from that of Adam Smith, one of the founders of capitalism. Smith created the concept of the invisible hand and spoke about self-interest; however, he went on to explain that this common good is associated with psychological motives and that each individual has to produce for the common good with values such as propriety, prudence, reason, sentiment, and "promoting the happiness of mankind."[9] These values could be associated with the needs and concerns of stakeholders.

In the twenty-first century, Friedman's form of capitalism is being replaced by Smith's original concept (what is now called **enlightened capitalism**), a notion of capitalism that reemphasizes stakeholder concerns and issues. The acceptance of enlightened capitalism may be occurring faster in developed countries than in those that are still developing. Theodore Levitt, a renowned business professor, once wrote that although profit is required for business, just as food is required for living, profit is not the purpose of business any more than food is the purpose of life.[10] Norman Bowie, a well-known philosopher, extended Levitt's sentiment by noting that focusing on profit alone can create an unfavorable paradox that causes a firm to fail to achieve its objectives. Bowie contends that when a business also cares about the well-being of stakeholders, it earns trust and cooperation that ultimately reduce costs and increase productivity.[11] This in turn results in the organization's increased profits and success.

enlightened capitalism
a theory of capitalism originally proposed by Adam Smith as "promoting the happiness of mankind" that emphasizes stakeholder concerns and issues

Some critics of business believe there is a trade-off between profits and social responsibility. They believe that to increase profits, a firm must view social responsibility as a cost that reduces profits. However, there is much evidence that social responsibility is associated with increased profits. For example, 53 percent of adults are willing to pay more for goods from companies demonstrating social responsibility.[12] Younger generations are more likely to factor social responsibility into purchases than older generations, which indicates that social responsibility will become even more important as time goes on. There is a trade-off for the costs of social responsibility, but the benefits could attract more customers and increase customer retention. As mentioned in Chapter 1, the Ethisphere Institute has found that the world's most ethical companies outperform the companies on the Standard & Poor's (S&P) index. This clearly demonstrates that social responsibility decisions are good for business.

Stakeholder Issues and Interaction

Stakeholders provide resources that are more or less critical to a firm's long-term success. These resources may be both tangible and intangible. Shareholders, for example, supply capital; suppliers offer material resources or intangible knowledge; employees and managers grant expertise, leadership, and commitment; customers

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generate revenue and provide loyalty and positive or negative word-of-mouth promotion; local communities provide infrastructure; and the media transmits positive or negative corporate images. When individual stakeholders share similar expectations about desirable business conduct, they may choose to establish or join formal communities that are dedicated to better defining and advocating these values and expectations. Stakeholders' ability to withdraw—or threaten to withdraw—these needed resources gives them power over businesses.[13]

New reforms to improve corporate accountability and transparency also suggest that stakeholders such as suppliers—including banks, law firms, and public accounting firms—can play a major role in fostering responsible decision-making. Stakeholders apply their values and standards to many diverse issues, such as working conditions, consumer rights, environmental conservation, product safety, and proper information disclosure. These are issues that may or may not directly affect an individual stakeholder's own welfare. We can assess the level of social responsibility that an organization bears by scrutinizing its efforts and communication on the issues of concern to its stakeholders. **Stakeholder engagement** refers to the process of involving stakeholders who may be affected by an organization's decisions or that may influence the content or implementation of the organization's decisions. Engagement with stakeholders takes place over a broad range of concerns and issues. Table 2.1 provides examples of common stakeholder issues, along with indicators of businesses' impacts on these issues.[14]

stakeholder engagement the organizational process of involving stakeholders who may be affected by the decisions it makes or may influence the content and implementation of its decisions

Identifying Stakeholders

primary stakeholders people or groups who are fundamental to a company's operations and survival; these include shareholders and investors, employees, customers, suppliers, and public stakeholders, such as government and the community

We can identify two types of stakeholders: primary and secondary. **Primary stakeholders** are those whose continued association is absolutely necessary for a firm's survival; these include employees, customers, suppliers, and shareholders and investors, as well as the governments and communities that provide necessary infrastructure. Initiatives that reward primary stakeholders can enhance employer-employee relationships, which we discuss in a later chapter. For example, employee year-end bonuses are on the rise because of the tight labor market.[15] Other primary stakeholders, such as customers, are directly affected by the quality of products and the integrity of communication and relationships. Shareholders depend on transparency regarding financial information, as well as forward-looking statements about sales and profits.

secondary stakeholders people or groups who do not typically engage in direct transactions with a company and thus are not essential for its survival; these include the media, trade associations, and special-interest groups

Secondary stakeholders do not typically engage in direct transactions with a company and thus are not essential for its survival; these include the media, trade associations, and special-interest groups. Both primary and secondary stakeholders embrace specific values and standards that dictate what constitutes acceptable or unacceptable corporate behaviors. It is important for managers to recognize that primary groups may present more day-to-day concerns, but secondary groups cannot be ignored or given less consideration. Sometimes a secondary stakeholder can have more of an impact than a primary stakeholder. For example, the American Association of Retired People (AARP), a special-interest group and the largest nonprofit in the United States, is dedicated to protecting the interests of Americans 50 and older. AARP helped pass more than 175 executive orders, laws, and regulations to protect nursing home residents and staff during the COVID-19 pandemic.[16]

stakeholder interaction model a model that conceptualizes the two-way relationships between a firm and a host of stakeholders

Figure 2.1 offers a conceptualization of the relationship between businesses and stakeholders. In this **stakeholder interaction model**, there are two-way relationships between a firm and a host of stakeholders. In addition to the fundamental input of investors, employees, and suppliers, this approach recognizes other stakeholders and explicitly acknowledges the dialogue and interaction that exist

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Table 2.1 Examples of Stakeholder Issues and Associated Measures of Corporate Impacts

Stakeholder Groups and Issues	Potential Indicators of Corporate Impact on These Issues
Employees	
1. Compensation and benefits	1. Average wage paid versus industry averages
2. Training and development	2. Changes in average training dollars spent per year per employee; resources for ethics training versus industry averages
3. Employee diversity	3. Percentages of employees from different genders and races, especially in leadership roles
4. Occupational health and safety	4. Standard injury rates and absentee rates
5. Flexible work arrangements	5. Availability of work from home policies
Customers	
1. Product safety and quality	1. Number of product recalls over time
2. Management of customers	2. Number of customer complaints and availability of complaint procedures to address them
3. Services to customers with disabilities	3. Availability and nature of measures taken to ensure services to customers with disabilities
Investors	
1. Transparency of shareholders	1. Availability of procedures to inform shareholders about corporate activities
2. Shareholder rights	2. Frequency and type of litigation involving violations of shareholder rights
Suppliers	
1. Encouraging suppliers in developing countries	1. Prices offered to suppliers in developed countries and developing countries in comparison to other suppliers
2. Encouraging minority suppliers	2. Percentage of minority suppliers
Community	
1. Public health and safety	1. Availability of emergency response plan protection
2. Conservation of energy and materials	2. Data on reduction of waste produced and materials comparison to industry
3. Donations and support of local organizations	3. Annual employee time spent in community service organizations
Environmental Groups	
1. Minimizing the use of energy	1. Amount of electricity purchased; percentage of "green" electricity
2. Minimizing emissions and waste	2. Type, amount, and designation of waste generated
3. Minimizing adverse environmental effect of products	3. Percentage of product weight reclaimed after the product has been used

between a firm's internal and external environments. The stakeholder interaction model is a conceptual tool that a company may use to create a company-specific **stakeholder map** that names the primary and secondary stakeholders, identifies salient issues, and illuminates relationships and networks. The Forest Stewardship Council (FSC), an international nonprofit that promotes responsible management of the world's forests, encourages its FSC certificate holders to engage in

stakeholder map
a company-specific map that names its primary and secondary stakeholders, identifies key issues, and examines relationships and networks between the organization and stakeholders

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Ethical Responsibilities in **CAPITALISM**

This Nonprofit Helps Startups Kickstart Responsible Innovation

Responsible Innovation Labs, a nonprofit founded by Hemant Taneja, managing partner at venture firm General Catalyst, and former Stripe executives Jon Zieger and Diede van Lamoen, aims to help companies consider social impact as they build their businesses. The organization helps startups and fast-growth companies leverage technology to innovate in areas such as economic inclusion, environmental sustainability, workforce diversity, privacy, and other major stakeholder issues.

There is a shift in capitalism underway, from stockholder capitalism to stakeholder capitalism, meaning corporations are orienting themselves to better create long-term value for their employees, customers, suppliers, and communities, in addition to shareholders. Responsible Innovation Labs sees this stakeholder orientation and the adoption of environmental, social, and governance (ESG) metrics as a good sign and aims to help companies consider social responsibility in the earliest stages of their development by providing them with helpful decision-making frameworks and tools.

Technology, according to Responsible Innovation Labs, has exacerbated many of society's most pressing problems such as income inequality and the spread of misinformation. The nonprofit is a coalition of business leaders that is shaping new standards for ethically deploying technology. The organization's mission is to "create standards of innovation to serve the needs of a global society and build enduring companies that re-center technology as a force for good." Its six core pillars are: advance economic inclusion, build sustainably, respect people, champion diversity, innovate intentionally, and strengthen democracy.

Responsible Innovation Labs's high-powered advisory board of world-class leaders includes Neil Blumenthal, co-founder and co-CEO of Warby Parker, Ken Chenault, chair and managing director of General Catalyst, and Youngme Moon, a professor of business at Harvard Business School, among others. These leaders believe that businesses can no longer operate with the sole goal of making a profit. The nonprofit is not the only one with this mindset. According to the Edelman Trust Barometer, 86 percent of respondents believe CEOs should lead on societal issues such as pandemic impact, job automation, local community issues, and other societal challenges. Business has become the most trusted institution, so it is important companies wield this power responsibly.

Sources: Edelman, "Edelman Trust Barometer 2021: Global Report," https://www.edelman.com/sites/g/files/aatuss191/files/2021-01/2021-edelman-trust-barometer.pdf (accessed December 21, 2021); Responsible Innovation Labs, https://www.rilabs.org (accessed December 27, 2021); Riitta Katila (Host), "What Is Responsible Innovation?" (No. 31), [Audio podcast episode] In *Entrepreneurial Thought Leadership*, Stanford University, https://ecorner.stanford.edu/podcasts/jon-zieger-responsible-technology-labs-what-is-responsible-innovation/ (accessed December 27, 2021); Stephanie Mehta, "Ex-Stripe Execs, VCs Launch New Nonprofit To Promote 'Responsible' Innovation," *Fast Company*, December 6, 2021, https://www.fastcompany.com/90702822/ex-stripe-execs-vcs-launch-new-nonprofit-to-promote-responsible-innovation (accessed December 27, 2021).

stakeholder mapping to build mutual trust, loyalty, transparency, empowerment, and continuity. The nonprofit certifies products that come from companies that follow high environmental standards.[17]

A Stakeholder Orientation

stakeholder orientation the degree to which a firm understands and addresses stakeholder demands

The degree to which a firm understands and addresses stakeholder demands can be referred to as a **stakeholder orientation**. This orientation comprises three sets of activities: (1) the organizationwide generation of data about stakeholder groups and assessment of the firm's effects on these groups, (2) the distribution of this information throughout the firm, and (3) the organization's responsiveness as a whole to this intelligence. Generating data about stakeholders begins with identifying the stakeholders that are relevant to the firm. Relevant stakeholder communities should be analyzed on the basis of the power that each enjoys, as well as by the ties among its parts. Next, the firm should characterize the concerns about the business's conduct that each relevant stakeholder group shares. This information

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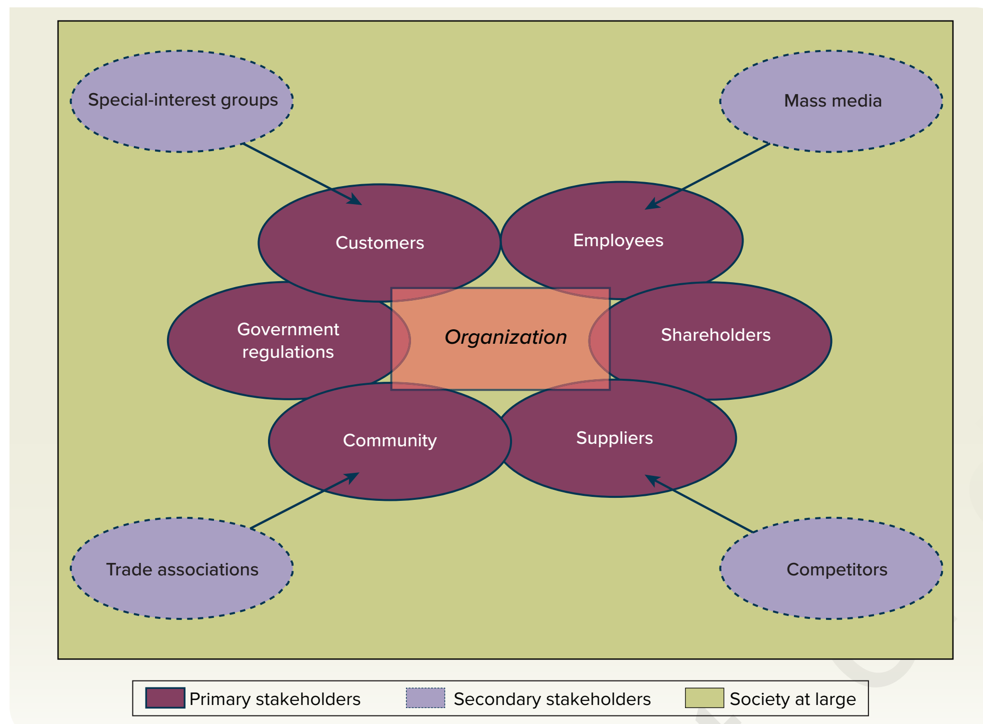
Figure 2.1 Stakeholder Model for Implementing Social Responsibilities



Source: Adapted from Isabelle Maignan, O. C. Ferrell, and Linda Ferrell, "A Stakeholder Model for Implementing Social Responsibility in Marketing," *European Journal of Marketing* 39 (September/October 2005): 956–977.

can be derived from formal research, including surveys, focus groups, internet searches, or press reviews. For example, Ford Motor Company obtains input on social and environmental responsibility issues from company representatives, suppliers, customers, and community leaders. Employees and managers can also generate this information informally as they carry out their daily activities. For example, purchasing managers know about suppliers' demands, public relations executives about the media, legal counselors about the regulatory environment, financial executives about investors, sales representatives about customers, and human resources advisors about employees. Finally, the company should evaluate its impact on the issues that are important to the various stakeholders that it has identified.[18] To develop effective stakeholder dialogue, management needs to appreciate how others perceive the risks of a specific decision. A multiple stakeholder perspective must take into account communication content and transparency when communicating with specific stakeholders.[19]

Given the variety of the employees involved in the generation of information about stakeholders, it is essential that this intelligence be circulated throughout the firm. This requires that the firm facilitate the communication of information about the nature of relevant stakeholder communities, stakeholder issues, the stakeholder map, and the current impact of the firm on these issues to all members of the organization. The dissemination of stakeholder intelligence can be organized formally through activities such as newsletters, internal databases and repositories, and internal communication platforms.[20]

A stakeholder orientation is not complete unless it includes activities that actually address stakeholder issues. AT&T, for example, regularly assesses stakeholder environmental, social, and governance (ESG) issues and measures its progress on these issues by establishing key performance indicators. The results of the company's stakeholder engagement efforts are reported to a

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corporate social responsibility (CSR) committee of the AT&T board of directors to guide the company's CSR strategy.[21] The responsiveness of the organization as a whole to stakeholder intelligence consists of the initiatives the firm adopts to ensure that they abide by or exceed stakeholder expectations and have a positive impact on stakeholder issues. Such activities are likely to be specific to a particular stakeholder group (e.g., family-friendly work schedules) or to a particular stakeholder issue (e.g., pollution-reduction programs). These responsiveness processes typically involve the participation of the stakeholder groups in question. Kraft, for example, includes special-interest groups and university representatives in its programs in order to become sensitized to present and future ethical issues.

Stakeholder orientation can be viewed as a continuum, in that firms are likely to adopt the concept to varying degrees. To gauge a given firm's stakeholder orientation, it is necessary to evaluate the extent to which the firm adopts behaviors that typify both the generation and dissemination of stakeholder intelligence and the responsiveness to it. A given organization may generate and disseminate more intelligence about certain stakeholder communities than about others and, as a result, may respond to that intelligence differently.[22]

Stakeholder Attributes

Traditionally, companies have had an easier time understanding the issues that stakeholders raise than their attributes and the tactics they use to affect organizational decision-making. It is, therefore, necessary to understand both the content (specific issues) and process (actions, tactics) of each stakeholder relationship.[23] Some activists use controversial tactics to make a statement. For example, protesters of a crude oil pipeline project by the Canadian company Enbridge were arrested after trespassing and severely damaging equipment.[24] One mechanism for understanding stakeholders and their potential salience to a firm involves assessing three stakeholder attributes: power, legitimacy, and urgency. Table 2.2 describes these three attributes. This assessment provides one analytical tool to help managers uncover the motivations and needs of stakeholders and how they relate to the company and its interests. In addition, stakeholder actions may sensitize the firm to issues and viewpoints not previously considered.[25]

Power, legitimacy, and urgency are not constant, meaning that stakeholder attributes can change over time and context. For example, there was a very strong "Buy American" sentiment in the United States in the 1980s, a time when Japanese manufacturers were making steady market share gains. As globalization increased and overseas manufacturing became the norm, consumer activism or retailer strategy on activism toward this nationalistic buying criterion waned. In the late 1990s and the early 2000s, there was increased urgency concerning Chinese manufacturers and legitimate claims concerning market share gains.

Table 2.2 Stakeholder Attributes

Attribute	Examples
Power	A well-established employee in a specialized field has power if replacing the employee would require extensive training and resources.
Legitimacy	Special-interest groups that are against genetically modified foods encourage protests after legislation favorable to biotechnology companies is passed.
Urgency	A company that has discovered a serious product defect that can cause injury must immediately implement a product recall.

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However, nationalism, as it relates to retail purchasing, seems to contribute to the intensity of the power gained in the stakeholder environment. This was largely because the U.S. economy was strong, so products from other countries were not seen as threatening. The "Buy American" sentiment rose again after the advent of the Great Recession in 2008–2009, during the U.S.–China Trade War, and during the COVID-19 pandemic in 2020 and beyond. During these surges in nationalism, American manufacturing comes to the forefront of consumer consciousness. In 2021, President Joe Biden signed Ensuring the Future Is Made in All of America by All of America's Workers, an executive order that launched an initiative to strengthen the use of federal procurement to support American manufacturing. This timeline demonstrates how power, legitimacy, and urgency can change over time.[26]

Power A stakeholder has **power** to the extent that it can gain access to coercive, utilitarian, or symbolic means to impose or communicate its views to an organization.[27] *Symbolic* power relies on the use of symbols that connote social acceptance, prestige, or some other attribute. *Utilitarian power* involves financial or material control based on a decision's utility or usefulness. Finally, *coercive power* involves the use of fear, suppression, punishment, or some type of restraint.

power
the extent to which a stakeholder can gain access to coercive, utilitarian, or symbolic means to impose or communicate its views to an organization

Symbolism contained in letter-writing campaigns, advertising messages, and websites can be used to generate awareness and enthusiasm for more responsible business actions. In fact, the internet has conferred tremendous power on stakeholder groups in recent years. Disgruntled stakeholders, especially customers and former employees, may share their concerns or dissatisfaction on social media sites. Even current employees are increasingly expressing their job frustrations over the internet. But symbolic power is the least threatening of the three types.

Utilitarian measures, including boycotts and lawsuits, are also fairly prevalent, although they often come about after symbolic strategies fail to yield the desired response. For example, civil rights groups organized a boycott of Facebook, encouraging companies to stop spending advertising money on the social media site. More than 1,000 advertisers exerted utilitarian power, withholding all financial resources from Facebook, while many others quietly reduced spending. The boycott hurt Facebook's bottom line and its reputation.[28]

Finally, some stakeholders use coercive power to communicate their message, especially when the issue is emotionally charged and somewhat controversial. For example, after Kellogg's announced plans to permanently replace 1,400 striking employees, Reddit users flooded Kellogg's job application system with fake applications and crashed its system. The strike and spam attack came to a close when Kellogg's offered better terms for its factory workers.[29]

Legitimacy The second stakeholder attribute is **legitimacy**, which is the perception or belief that a stakeholder's actions are proper, desirable, or appropriate in a given context.[30] This definition suggests that stakeholder actions are considered legitimate when claims are judged to be reasonable by other stakeholders and by society in general. Legitimacy is gained through the stakeholder's ability and willingness to explore the issue from a variety of perspectives, and then to communicate in an effective and respectful manner on the desire for change. Legitimacy is also linked to compliance with regulations, values, and norms that support ethical conduct.

legitimacy
the perception or belief that a stakeholder's actions are proper, desirable, or appropriate in a given context

Thus, extremist views are less likely to be considered legitimate because these groups often use covert and inflammatory measures that overshadow the issues and create animosity. Over the years, extreme groups have destroyed property, threatened customers, and committed other acts of violence that ultimately discredit their legitimacy. Opponents of controversial practices such as fracking

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or animal testing, for example, are at risk of deligitimizing their efforts if they break the law or lead with violence. Although an issue may be legitimate, such as environmental sensitivity, it is difficult for the claim to be evaluated independent of the way the stakeholder group communicates on it.

urgency
the time sensitivity and the importance of the claim to the stakeholder

Urgency Stakeholders exercise greater pressures on managers and organizations when they stress the urgency of their claims. **Urgency** is based on two characteristics: time sensitivity and the importance of the claim to the stakeholder. Time sensitivity usually heightens the stakeholder's effort and may compress an organization's ability to research and react to a claim. Labor strikes can increase the urgency of claims. Strikes, unionization efforts, and worker mobilization characterized the COVID-19 pandemic as the Great Resignation, discussed in Chapter 8, gained momentum. While some labor strikes can last for months, essential workers may have more leverage. For example, 32,000 Kaiser Permanente workers were able to agree to a new contract just hours before a strike was set to start.[31]

Overall, stakeholders are considered more important to an organization when their issues are legitimate, their claims are urgent, and they can make use of their power on the organization. These attributes assist the firm and employees in determining the relative importance of specific stakeholders and making resource allocations for developing and managing the stakeholder relationship.

Performance with Stakeholders

Effectively managing stakeholder relationships requires careful attention to a firm's reputation and the effective handling of crisis situations. Trust and transparency build stakeholder relationships. It is crucial to continuously monitor a brand's reputation and have a crisis management plan in place before disaster strikes. Apple, Microsoft, and Amazon are often found at the top of Fortune's World's Most Admired Companies list even though these companies regularly face criticism and controversy. This suggests these companies are effective at reputation and crisis management.[32]

Reputation Management

There are short- and long-term outcomes associated with positive stakeholder relationships. One of the most significant of these is a positive reputation. Because a company's reputation has the power to attract or repel stakeholders, it can be either an asset or a liability in developing and implementing strategic plans and social responsibility initiatives.[33] Reputations take a long time to build or change, and it is far more important to monitor reputation than many companies believe. Whereas a strong reputation may take years to build, it can be destroyed seemingly overnight if a company does not handle crisis situations to the satisfaction of the various stakeholders involved.

Corporate reputation, image, and brands are more important than ever and are among the most critical aspects of sustaining relationships with constituents, including investors, customers, financial analysts, media, and government watchdogs. It takes companies decades to build a great reputation, yet just one slip can cost a company dearly. Although an organization does not control its reputation in a direct sense, its actions, choices, behaviors, and consequences do influence the reputation that exists in perceptions of stakeholders. A corporate reputation poll showed that quality is typically the biggest driver of corporate reputation, but company purpose and vision play a big role. While consumers are primarily concerned about the quality of their goods and services,

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consumers also want companies to maintain strong values through their vision and purpose.[34]

Reputation management is the process of building and sustaining a company's good name and generating positive feedback from stakeholders. A company's reputation is affected by every contact with a stakeholder.[35] Various trends may affect how companies manage their reputations. These trends include market factors, such as increased consumer knowledge, the emergence of instantaneous communication, stakeholder activism, and community access to information, and workplace factors, including technological advances, closer vendor relationships, and more inquisitive employees. These factors make companies more cautious about their actions and words because increased scrutiny in this area requires more attention from management. A company needs to understand these factors and how to properly address them to build a strong reputation. These factors have also helped companies recognize the link between reputation and competitive advantage. If these trends are dealt with wisely and if internal and external communication strategies are used effectively, a firm can position itself positively in stakeholders' minds and thus create a competitive advantage. Intangible factors related to reputation can account for as much as 50 percent of a firm's market valuation.[36]

reputation management the process of building and sustaining a company's good name and generating positive feedback from stakeholders

The importance of corporate reputation has created a need for accurate reputation measures. As indicated in Table 2.3, business publications, research firms, consultants, and public relations agencies have established a foothold in the field of reputation management through research and lists of "the most reputable" firms. However, some questions have arisen as to who can best determine corporate reputation. For example, some measures survey only chief executives, whereas others also elicit perceptions from the general public. Although executives may be biased toward a firm's financial performance, the general public may

Table 2.3 Reputation Measures

Reputation List	Conducted By	Groups Surveyed
100 Best Companies to Work For	*Fortune* magazine, Great Place to Work Institute	Companies that are at least five years old and employ at least 1,000 employees; employees and top managers are surveyed
100 Best Corporate Citizens	3BL Media	Russell 1000 companies
100 Best ESG Companies	Investor's Business Daily	The top 15% of the 2,360 companies whose stock price was $10 or higher and traded in the U.S., ranked by Dow Jones ESG data
Axios Harris Poll 100	Axios and The Harris Poll	General public
Corporate Branding Index	CoreBrand, LLC	Business executives responsible for purchasing and strategic relationship decisions from the top brands with over $50 million as well as high-level customers
Global RepTrak 100	The RepTrak Company	Corporate brands with global revenues of $2 billion
World's Most Admired Companies	*Fortune* magazine, Korn Ferry Hay Group	Fortune 1000 companies and Fortune's Global 500 with revenues at or over $10 billion; company executives, directors, and analysts are surveyed
World's Most Ethical Companies	The Ethisphere Institute	Scoring based on self-reported data in five weighted categories

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Table 2.4 Ten Socially Responsible Companies

AT&T	Patagonia
Ben & Jerry's	Salesforce
Cummins	Sony Corporation
Eaton	Starbucks
Marriott	Warby Parker

lack experience or data on which to evaluate a company's reputation. Regardless of how it is measured, reputation is the result of a process involving an organization and various constituents.[37]

The process of reputation management involves four components that work together: organizational identity, image, performance, and ultimately, reputation.[38] Performance involves the actual interaction between the company and its stakeholders. To build and manage a good reputation, these four areas must be aligned. Companies must manage identity and culture by pinpointing those standards and responsibilities that will allow them to achieve their objectives, work with stakeholders effectively, and continuously monitor and change for effectiveness.[39] Patagonia is an example of a company that has built a strong reputation by aligning these four areas. The company's values reflect a minimalist style and dedication to preserving the planet: build the best product, cause no unnecessary harm, use business to protect nature, and not bound by convention. The company offers high-quality garments that are made to last, educational content about care and repair, and recycling programs. To tie it all together, Patagonia pledges 1 percent of sales to the preservation and restoration of the natural environment.[40] Table 2.4 lists 10 socially responsible companies known for their CSR initiatives. Salesforce, for instance, has developed a model called the 1-1-1 model, which contributes 1 percent of the company's time, 1 percent of equity, and 1 percent of company products to worthy causes, such as significantly discounting its products for nonprofit organizations.

Thus, all these elements must be continually implemented to ensure that the company's reputation is maximized through community relations. However, most firms will, at one time or another, experience crisis situations that threaten or harm this reputation. How a company reacts, responds, and learns from the situation is indicative of its commitment and implementation of social responsibility. The acceptance and implementation of reputation management strategies, concurrent with widespread use of the internet and social media, also may bring challenges to the **marketplace of ideas**. Unlike the traditional economic marketplace, where competition determines superior products and services, an ideas marketplace assumes that ideas compete against one another for truth and acceptability. Although the marketplace of ideas was initially conceptualized with respect to free speech, it also applies to the dual responsibility of executives and managers with respect to reputation management: advocating for the company while simultaneously ensuring transparency and full disclosure with stakeholders.[41]

marketplace of ideas the assumption that ideas compete against one another for truth and acceptability

Reputation management is a key consideration for corporations around the world. An annual poll by Edelman revealed an increase in trust of businesses for both the informed public and the general population. According to the Axios Harris Poll, the 10 businesses with the best reputations are Patagonia, Honda Motor Company, Moderna, Chick-fil-A, SpaceX, Chewy, Pfizer, Tesla Motors, Costco, and Amazon.[42]

Crisis Management

Organizational crises are far-reaching events that can have dramatic effects on both the organization and its stakeholders. Along with the industrialization of society, companies and their products have become ever more complex, and therefore more susceptible to crisis. As a result, disasters and crisis situations are increasingly common events from which few organizations are exempt.[43] Subway, one of the world's largest restaurant chains, has a track record of handling crisis situations poorly. For example, when the contents of the restaurant's tuna was called into question, Subway posted jokes to Twitter, effectively dismissing the legitimacy of the lawsuit rather than addressing ongoing food quality concerns

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from the public.[44] Proper crisis management is necessary, and companies must be ready at any moment to adapt to challenges.

An **ethical misconduct disaster (EMD)** can be an unexpected organizational crisis that results from employee misconduct, illegal activities such as fraud, or unethical decisions and that significantly disrupts operations and threatens or is perceived to threaten the firm's continuity of operations. An EMD can even be more devastating than natural disasters such as a hurricane or technology disruptions.[45] Table 2.5 discusses some EMDs that happened due to lapses in leadership and the failure to manage risks properly.

ethical misconduct disaster (EMD)
an unexpected organizational crisis that results from employee misconduct, illegal activities such as fraud, or unethical decisions and that significantly disrupts operations and threatens or is perceived to threaten the firm's continuity of operations

As organizations plan for natural disasters and insure against traditional risks, so too should they prepare for ethical crises. An EMD can be managed by organizational initiatives to recognize, avoid, discover, address, and recover from the misconduct. The potential damage of an ethical disaster can affect both business and society. The costs of an EMD from both financial and reputation perspectives can be assessed, as well as the need for planning to avoid an EMD in the first place. The role of leadership in preventing a crisis relates to a contingency plan to develop effective crisis management programs.

The risks facing organizations today are significant, and the reputational damage caused can be far greater for companies that find themselves unprepared. The key is to recognize that the risks associated with misconduct are real and that, if insufficient controls are in place, the company can suddenly find itself the subject of an EMD. Although it is hard to predict an ethical disaster, companies can and must prepare for one. Data protection is a major issue in the modern era, and companies now have more responsibility to protect consumer data. Microsoft, Facebook, Audi, T-Mobile, Coinbase, Neiman Marcus, Panasonic, and Robinhood are just a few companies to face data breaches in recent years. Many companies struggle to stay ahead of cybersecurity issues, leaving their customers at risk. Microsoft has strengthened its cybersecurity efforts to avoid a major crisis. In addition to investing in data protection technology, the company has invested in the next generation of cybersecurity professionals through educational programs.[46]

Of course, not every unethical decision relates to negligence. Many often begin as a marketing effort, and only in retrospect is it revealed to be unethical. And clearly not every decision becomes a crisis. For example, the Federal Trade Commission (FTC) filed a complaint against glue maker Chemence for labeling its products "Made in the USA" even though more than 80 percent of its materials were from foreign sources. Chemence and the FTC reached a $1.2 million settlement.[47]

Table 2.5 Ethical Misconduct Disasters

Company	Disaster
Bayer	Faced thousands of claims that linked Roundup weedkiller to cases of non-Hodgkin's lymphoma but continued to sell the product
Blue Cross Blue Shield	Accused of anti-competitive behavior and agreed to pay more than $2 billion to settle the antitrust lawsuit
Boeing	Paid $2.5 billion to settle criminal charges that the company conspired to defraud the Federal Aviation Administration
Johnson & Johnson, Cardinal Health, AmerisourceBergen, and McKesson	Downplayed the addictive properties of opioids, greatly contributing to the opioid crisis
Volkswagen and BMW	Accused of colluding illegally to limit the effectiveness of their emissions technology

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crisis management
the process of handling a high-impact event characterized by ambiguity and the need for swift action

It is critical for companies to manage crises effectively because research suggests that these events are a leading cause of business failure. What follows are some key issues to consider in **crisis management**, the process of handling a high-impact event characterized by ambiguity and the need for swift action. In most cases, the crisis situation will not be handled in a completely effective or ineffective manner. Thus, a crisis usually leads to both success and failure outcomes for a business and its stakeholders and provides information that can be used to make improvements to future crisis management and social responsibility efforts.[48]

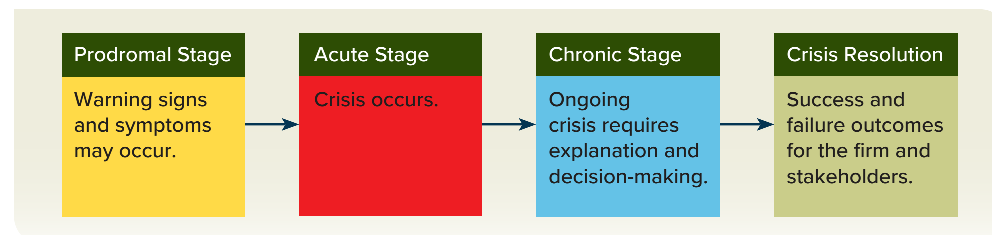
Organizational crises are characterized by a threat to a company's high-priority goals, surprise to its membership, and stakeholder demands for a short response time. The nature of crises requires a firm's leadership to communicate in an often stressful, emotional, uncertain, and demanding context. Crises are very difficult on a company's stakeholders as well. For this reason, the firm's stakeholders, especially its employees, shareholders, customers, government regulators, competitors, creditors, and the media, will scrutinize communication after a crisis. Hence, a crisis has widespread implications not only for the organization, but also for each group affected by the crisis.

Supply chain disruption is one example of a major threat to a company achieving its goals, and it can severely damage stakeholder relationships. The COVID-19 pandemic triggered a domino effect that crippled the global supply chain. Uncertainty led both consumers and businesses to stockpile products, resulting in empty shelves and strained supplier relationships. Companies that invested in mapping their supply chains prior to the crisis to identify which suppliers and parts had the potential to be at risk during a potential disruption were better prepared. For example, Apple, due to its well-managed supply chain, was one of the few companies that was able to secure microchips during the global shortage of semiconductor chips. Even so, the company had to cut projected iPhone production targets by millions of units.[49]

To better understand how crises develop and move toward resolution, some researchers use a medical analogy. Using that analogy, the organization proceeds through chronological stages, similar to a person with an illness. The *prodromal stage* is a precrisis period, during which warning signs may exist. Next is the *acute stage*, in which the actual crisis occurs. During the *chronic stage*, the business is required to explain their actions sufficiently for them to move to the final stage, *crisis resolution*. Figure 2.2 illustrates these stages. Although the stages are conceptually distinct, some crises happen so quickly, and without warning, that the organization may move from the prodromal to the acute stage within minutes.

One of the fundamental difficulties that a company faces is how to communicate effectively to stakeholders during and after a disaster. Once a crisis strikes, the firm's stakeholders need a quick response in the midst of the duress and confusion. They need information about how the company plans to resolve the crisis, as well as what each constituent can do to mitigate its own negative effects. If a company is slow to respond, stakeholders may feel that the company does not care about their needs or is not concerned or remorseful (if the company is at fault) about the crisis. Furthermore, a delayed response may in fact increase the suffering

Figure 2.2 The Crisis Management Process



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of particular stakeholder groups. For instance, some stakeholders may take on considerable debt due to medical expenses as a result of the crisis. Therefore, a rapid response to stakeholders is central to any crisis resolution strategy so that these various groups can plan their recovery.

Ironically, crisis events are often so chaotic that a company's leadership may not be certain of the cause of the situation before the media and other relevant groups demand a statement. Thus, it is not surprising for organizations to begin their crisis responses with some degree of ambiguity in their statements. In fact, some crisis theorists advise companies to avoid too much detail in their initial responses due to the embarrassment that results from changing positions later in the crisis, when more information is available. Still, stakeholder groups want or, as a matter of safety in some cases, need access to whatever information the firm can share. Although tensions between the public's needs and the organization's fear of litigation can hamper the willingness to communicate, the demand for information in such situations is unyielding.

Not only should the firm's leadership make a public statement quickly, but it is also necessary for the organization to communicate about specific issues to stakeholder groups. First, leadership should express concern and/or remorse for the event. Second, the organization should delineate guidelines regarding how they intend to address the crisis so that stakeholders can be confident that the situation will not escalate or reoccur. Finally, the company should provide explicit criteria to stakeholders regarding how each group will be compensated for any negative effects it experiences as a result of the crisis. Many companies, however, overlook these three essential conditions of crisis management. More often, they focus on minimizing harm to the organization's image, denying responsibility for the crisis, and shifting blame away from the organization and toward other stakeholder groups. Although this may be an appropriate strategy when firms are not actually responsible, too often they choose this course of action under the stress of the crisis when they are responsible (or partially responsible) for the crisis without expressing sufficient remorse for their involvement or concern for their stakeholders.

The varying communication needs and levels of concern of stakeholders during and after a crisis often hamper effective communication. The firm's leadership should try to communicate as much accurate information to these groups as possible to minimize their uncertainty. When a firm fails to do so, their credibility, legitimacy, and reputation in the eyes of stakeholders often suffer. Adding to the complexity of communication challenges, the needs of various stakeholder groups may conflict. For instance, the needs of customers who become ill as a result of a contaminated product and their desire to have medical bills paid may be at odds with the company's ability to bolster their stock price to satisfy shareholders. Some stakeholders will obviously have more opportunities than others to voice their concerns after a crisis. Victims and the general public rarely have an opportunity to meet with the organization's leadership after a crisis. Conversely, the organization's stockholders and employees will likely have a greater opportunity to express their views about the crisis and therefore may have their ideas accepted by management. Some researchers suggest that, due to this ability to communicate directly with leadership, internal stakeholder needs often take precedence over those of external stakeholders.

Organizations have a responsibility to manage the competing interests of stakeholders to ensure that all stakeholder groups are treated fairly in the aftermath of a crisis. Responsible companies try to balance the needs of their stakeholders rather than favoring some groups over others. Organizations that fail to accomplish effective crisis communication alienate stakeholder groups and intensify the negative media attention toward the company. For many reasons, including effective crisis management, organizations need to understand and pursue solid and mutually beneficial relationships with stakeholders.

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Development of Stakeholder Relationships

Relationships of any type, whether they involve family, friends, coworkers, or companies, are founded on principles of trust, commitment, and transparent communication. They also are associated with a certain degree of time, interaction, and shared expectations. For instance, we do not normally speak of "having a relationship" with someone we have just met. We even differentiate between casual acquaintances, work colleagues, and close friends.

In business, the concept of relationships has gained much acceptance. Instead of just pursuing one-time transactions, companies are now searching for ways to develop long-term and collaborative relationships with their customers and business partners.[50] Many companies focus on relationships with suppliers, buyers, employees, and others directly involved in economic exchange. These relationships involve investments of several types. Some investments are tangible, such as buildings, equipment, new tools, and other elements dedicated to a particular relationship. Many companies, for example, have invested in their digital supply chains to transform the customer experience. Walmart regularly invests in new technology that allows it to quickly, efficiently, and affordably get products into the hands of its customers. Other investments are less tangible, such as the time, effort, trust, and commitment required to develop a relationship with customers. Southwest Airlines develops the intangible aspect of relationships through the level of customer service they provide, as well as the enjoyable experience they offer.[51]

Whereas tangible investments are often customized for a specific business relationship, intangible efforts have a more lucid and permeable quality. Although social responsibility involves tangible activities and other communication signals, the key to good stakeholder relationships resides in trust, communication quality, and mutual respect. As a company strives to develop a dialogue and a solid relationship with one stakeholder, investments and lessons learned through the process should add value to other stakeholder relationships. For example, Starbucks provides excellent benefits, including healthcare for part-time employees, and supports fair trade or a fair income for the farmers who grow the coffee they sell.

social capital
an asset that resides in relationships and is characterized by mutual goals and trust

These efforts result in **social capital**, an asset that resides in relationships and is characterized by mutual goals and trust.[52] Social capital include the social connections that can provide economic benefits that are mutually advantageous. Social capital provides social networks that have value. Like financial and intellectual capital, social capital facilitates internal and external transactions and processes. This is especially true as more businesses become part of the sharing economy. Companies such as Airbnb, a home rental sharing company, and Uber, a car reservation company, are prime examples of businesses whose level of social capital is necessary for their success. These business models depend upon building and reinforcing transparency and accountability among users, as well as between users and the company.[53]

Unlike financial and intellectual capital, however, social capital is not tangible or the obvious property of one organization. In this same regard, social responsibility is not compartmentalized or reserved for a few issues or stakeholders but should have the companywide strategic focus discussed in Chapter 1.

Implementing a Stakeholder Perspective in Social Responsibility

An organization that develops effective corporate governance and understands the importance of business ethics and social responsibility in achieving success should develop some processes for managing these important concerns. Although there

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are many approaches, we provide some steps that have been found effective to utilize the stakeholder framework in managing responsibility and business ethics, including (1) assessing the corporate culture, (2) identifying stakeholder groups, (3) identifying stakeholder issues, (4) assessing the organization's commitment to social responsibility, (5) identifying resources and determining urgency, and (6) gaining stakeholder feedback. The importance of these steps is to include feedback from relevant stakeholders in formulating organizational strategy and implementation.[54] Table 2.6 summarizes these six steps.

Step 1: Assessing the Corporate Culture

To enhance organizational fit, a social responsibility program must align with the corporate culture of the organization. The purpose of this first step is to identify the organizational mission, values, and norms that are likely to have implications for social responsibility. In particular, relevant existing values and norms are those that specify the stakeholder groups and stakeholder issues that are deemed most important by the organization. Very often, relevant organizational values and norms can be found in corporate documents such as the mission statement, annual reports, sales brochures, or websites. For example, REI crafts its corporate culture around love of the outdoors. Because of this, the company puts a heavy emphasis on protecting the environment. REI has initiatives to reduce packaging waste, to increase recycling, and to increase green building practices. The REI Foundation was created to help the environment, encourage outdoor activities, and help communities recover from natural disasters.[55]

Step 2: Identifying Stakeholder Groups

In managing this stage, it is important to recognize stakeholder needs, wants, and desires. There are many important issues that gain visibility because key constituencies such as consumer groups, regulators, and the media express an interest. When agreement, collaboration, or even confrontation exists around an issue, there is a need for a decision-making process. A model of collaboration to overcome the adversarial approaches to problem-solving has been suggested. Managers can identify relevant stakeholders that may be affected by or may influence the development of organizational policy, which is an important element of stakeholder engagement.

Table 2.6 Six Steps for Utilizing a Stakeholder Framework

Steps	Example
Assess the corporate culture.	New Belgium Brewing decides to invest in wind power because doing so aligns with its mission of environmental responsibility.
Identify stakeholder groups.	Whole Foods recognizes the importance of working with animal activist organizations to ensure that the animals supplying its meat products are treated humanely.
Identify stakeholder issues.	Chevron identifies sustainability and the increasing concern over greenhouse gas emissions as important stakeholder considerations affecting the industry.
Assess the organization's commitment to social responsibility.	CVS determines that eliminating cigarette sales will reinforce its commitment toward becoming a health services company.
Identify resources and determine urgency.	Home Depot provides emergency supplies in areas that are struck by natural disasters.
Gain stakeholder feedback.	Best Buy asked consumers for feedback and realized that the recycling of electronic waste was a major concern.

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Stakeholders have some level of power over a business because they are in the position to withhold, or at least threaten to withhold, organizational resources. Stakeholders have most power when their own survival is not really affected by the success of the organization, and when they have access to vital organizational resources. For example, most consumers of chocolate do not have a specific need to buy Hershey chocolate. Therefore, if they decide to boycott Hershey, they have to endure only minor inconvenience. Nevertheless, their loyalty to Hershey is vital to the continued success of the chocolate maker. The proper assessment of the power held by a given stakeholder community also requires an evaluation of the extent to which that community can collaborate with others to pressure the firm.

Step 3: Identifying Stakeholder Issues

Together, Steps 1 and 2 lead to the identification of the stakeholders who are both the most powerful and legitimate. The level of power and legitimacy determines the degree of urgency in addressing their needs. Step 3, then, consists of understanding the nature of the main issues of concern to these stakeholders. A stakeholder map may be especially useful at this stage. Conditions for collaboration exist when problems are so complex that multiple stakeholders are required to resolve the issue and the weaknesses of adversarial approaches are understood.

One example of a current stakeholder issue is people want to see more manufacturing in the United States. It should be noted that expectations and priorities vary across stakeholder groups. For example, consumers have high expectations for brand authenticity while investors are more focused on sustainability, and retailers place greater importance on diversity, equity, and inclusion, according to a McKinsey study.[56]

Step 4: Assessing the Organization's Commitment to Social Responsibility

Steps 1 through 3 consist of generating information about social responsibility among a variety of influencers in and around the organization. Step 4 brings these three first stages together to arrive at an understanding of social responsibility that specifically matches the organization of interest. This general definition will then be used to evaluate current practices and to select concrete social responsibility initiatives. Firms such as Kohler Co. have selected activities that address stakeholder concerns. Kohler, an American manufacturing company known for its plumbing products, has formalized its initiatives in official documents such as annual social impact reports, policies, and webpages. It has invested in innovation in water efficiency, environmentally-friendly product designs, corporate giving, diversity, equity and inclusion, and more.[57]

Step 5: Identifying Resources and Determining Urgency

The prioritization of stakeholders and issues, along with the assessment of past performance, provide for allocating resources. Two main criteria can be considered. First, the levels of financial and organizational investments required by various actions should be determined. A second criterion when prioritizing social responsibility challenges is urgency. When the challenge under consideration is viewed as significant, and when stakeholder pressures on the issue could be expected, then the challenge can be treated as urgent. For example, environmental issues have become a huge concern across groups and stakeholders. Companies must focus on their environmental impact and how their productions affect the environment and their stakeholders. Ford and its partner SK Innovations allocated $11.4 billion to create

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three new electric vehicle factories in Tennessee and Kentucky to manufacture batteries and electric trucks. Ford will create more than 11,000 jobs as it prepares urgently for an electric future.[58]

Step 6: Gaining Stakeholder Feedback

Stakeholders' feedback can be generated through a variety of means. First, their general assessment of the firm and its practices can be obtained through satisfaction or reputation surveys. Many organizations consider the reputation measures seen in Table 2.3. ESG ratings can be used by both organizations and their stakeholders to identify areas of risk and to understand a company's performance related to environmental, social, and governance factors. Second, to gauge stakeholders' perceptions of the firm's contributions to specific issues, stakeholder-generated media such as blogs, websites, podcasts, and newsletters can be assessed. Additionally, public sentiment toward a firm can be evaluated through social media monitoring services. Third, more formal research may be conducted using focus groups, observation, and surveys. Websites can be both positive and negative; for example, Yelp and Google Business reviews have both generated and decreased sales of business establishments based on reviews left on the sites. Because so many consumers refer to these websites before visiting a business, many companies are focusing on good customer service to ensure good reviews. However, reviews that are fraudulent or misleading can do harm to a business. For example, Amazon permanently bans companies that repeatedly engage in review fraud because it undermines consumer trust.[59]

In the process of developing stakeholder relationships, most strategies are focused on increasing the trust that a stakeholder has in a particular company. Of course, there is no "one size fits all" approach for building and sustaining trusting relationships with stakeholders. As discussed earlier in the chapter, not all stakeholders engage with a company with the same level of intensity or locus of control, whether internal or external. For example, employees are highly engaged internal stakeholders, while suppliers may be considered low-intensity external stakeholders. Relationship intensity, however, is not static. For example, during the COVID-19 pandemic shortages, monitoring suppliers and the supply chain became more important in gaining stakeholder feedback. During this time, suppliers became high-intensity stakeholders. Depending on the specific issues at hand, historical interactions, relationship intensity, and other factors, managers must understand the relative importance of transparency, competence, benevolence, integrity, values, and other factors.[60]

Link Between Stakeholder Relationships and Social Responsibility

You may be wondering what motivations companies have for pursuing stakeholder relationships. As the previous section indicates, a great deal of time, effort, and commitment goes into the process of developing and implementing a stakeholder perspective. Sometimes, however, these efforts do not have the desired effect. As discussed in Chapter 1, social responsibility is a relational approach that involves the views and stakes of a number of groups. Stakeholders are engaged in the relationships that both challenge and support a company's efforts. Thus, without a solid understanding of stakeholders and their interests, a firm may miss important trends and changes in its environment and not achieve strategic social responsibility. For example, many car manufacturers have fallen behind in the electric vehicle

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(EV) race. EV adoption is on the rise, and mainstream automakers, such as GM and Ford, have taken note of this trend. Others, however, are lagging behind the industry. Toyota, for example, the largest car company in the world, has lobbied policymakers and pushed back on EV incentives partly because the company is behind the pack.[61]

Rather than holding all companies to one standard, our approach to evaluating performance and effectiveness resides in the specific expectations and actual results that develop between each organization and its stakeholders. Max Clarkson, an influential contributor to our understanding of stakeholders, sums up this view:

> *Performance is what counts. Performance can be measured and evaluated. Whether a corporation and its management are motivated by enlightened self-interest, common sense or high standards of ethical behavior cannot be determined by empirical methodologies available today. These are not questions that can be answered by economists, sociologists, psychologists, or any other kind of social scientist. They are interesting questions, but they are not relevant when it comes to evaluating a company's performance in managing its relationships with its stakeholder groups.*[62]

Although critics and some researchers may seek answers and evidence as to the motivations of business for social responsibility, we are interested in what companies are actually doing that is positive, negative, or neutral for their stakeholders and their stakeholders' interests. The Reactive–Defensive–Accommodative–Proactive Scale (see Table 2.7) provides a method for assessing a company's strategy and performance for each stakeholder. This scale is based on a continuum of strategy options and performance outcomes with respect to stakeholders.[63] This evaluation can take place as stakeholder issues arise or are identified. Therefore, it is possible for one company to be rated at several different levels because of varying performance and transitions over time. For example, a poorly handled crisis may provide feedback for continuous improvement that creates more satisfactory performance in the future. Or a company may demonstrate a proactive stance toward employees, and yet be defensive with consumer activists.

The reactive approach involves denying responsibility and doing less than is required. This approach can be characterized as "fighting it all the way." A firm that fails to invest in safety and health measures for employees is denying its responsibilities. An organization with a defensive strategy acknowledges reluctantly and partially the responsibility issues that may be raised by its stakeholders.

Table 2.7 The Reactive–Defensive–Accommodative–Proactive Scale

Rating	Strategy	Performance	Example
Reactive	Deny responsibility	Doing less than required	Exxon refuses to continue oil spill cleanup after a certain date.
Defensive	Admit responsibility, but "fight it all the way"	Doing the least that is required	Valero Energy claims that it meets federal regulation; therefore, community complaints are not legitimate.
Accommodative	Accept responsibility	Doing all that is required	General Motors (GM) promises job security if productivity gains are realized.
Proactive	Anticipate responsibility	Doing more than is required	Xerox shares product blueprints with suppliers and takes suggestions before production.

Source: Adapted from Max B. E. Clarkson, "A Stakeholder Framework for Analyzing and Evaluating Corporate Social Performance," *Academy of Management Review* 20 (January 1995): 92–117; I. M. Jawahar and Gary McLaughlin, "Toward a Descriptive Stakeholder Theory: An Organizational Life Cycle Approach," *Academy of Management Review* 26 (July 2001): 397–414.

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A firm in this category fulfills basic legal obligations and demonstrates the minimal responsibility discussed in Chapter 1. With an accommodative strategy, a company attempts to satisfy stakeholder demands by doing all that is required and may be seen as progressive because it is obviously open to this expanded model of business relationships. Today, many organizations are giving money and other resources to community organizations as a way of demonstrating social responsibility. Finally, the proactive approach not only accepts, but also anticipates stakeholder interests. In this case, a company sincerely aligns legitimate stakeholder views with its responsibilities and will do more than is required to meet them.[64]

The Reactive–Defensive–Accommodative–Proactive Scale is useful because it evaluates real-life practices and allows an organization to see its strengths and weaknesses within each stakeholder relationship. Many companies publish annual corporate social responsibility reports, internal- and external-facing documents that outline stakeholder issues and progress made on social responsibility initiatives. Thorough reports will openly share both strengths and weaknesses. Best Buy, for example, publishes an annual environmental, social, and governance (ESG) report that covers issue such as employee benefits, conflict minerals, corporate governance, and sustainable operations. The document acknowledges the company's shortcomings alongside its strengths and achievements while outlining goals and strategies for the future. This is an example of a proactive strategy.[65] Results from a stakeholder assessment should be included in the **social audit**, the process of assessing and reporting a firm's performance in adopting a strategic focus for fulfilling the economic, legal, ethical, and philanthropic social responsibilities expected of it by its stakeholders. Because stakeholders are so important to the concept of social responsibility, as well as to business success, Chapters 3–13 are devoted to exploring significant stakeholder relationships and issues.

social audit
the process of assessing and reporting a firm's performance in adopting a strategic focus for fulfilling the economic, legal, ethical, and philanthropic social responsibilities expected of it by its stakeholders

Summary

Stakeholders refer to those people and groups who have a stake in some aspect of a company's products, operations, markets, industry, or outcomes. The relationship between organizations and their stakeholders is a two-way street.

The historical assumption that the key objective of business is profit maximization led to the belief that business is accountable primarily to investors and others involved in the market and economic aspects of the organization. In the latter half of the twentieth century, perceptions of business accountability evolved to include both market constituencies that are directly involved and affected by the business purpose (e.g., investors, employees, customers, and other business partners) and nonmarket constituencies that are not always directly tied to issues of profitability and performance (e.g., the general community, media, government, and special-interest groups).

In the stakeholder model, relationships, investors, employees, and suppliers provide inputs for a company to benefit stakeholders. The stakeholder model assumes a two-way relationship between the firm and a host of stakeholders. This approach recognizes additional stakeholders and acknowledges the two-way dialogue and effects that exist with a firm's internal and external environment.

Primary stakeholders are fundamental to a company's operations and survival and include shareholders and investors, employees, customers, suppliers, and public stakeholders, such as governments and communities. Secondary stakeholders influence and/or are affected by a company but are neither engaged in transactions with the firm nor essential for their survival.

As more firms conduct business overseas, they encounter the complexity of stakeholder issues and relationships in tandem with other business operations and decisions. Although general awareness of the concept of stakeholders is relatively

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high around the world, the importance of stakeholders varies from country to country. All types of organizations must understand the stakeholder interaction model, as well as the utility of developing a stakeholder map.

A stakeholder has power to the extent that it can gain access to coercive, utilitarian, or symbolic means to impose or communicate its views to the organization. Legitimacy is the perception or belief that a stakeholder's actions are proper, desirable, or appropriate within a given context. Stakeholders exercise greater pressures on managers and organizations when they stress the urgency of their claims. These attributes can change over time and context.

The degree to which a firm understands and addresses stakeholder demands can be referred to as a "stakeholder orientation." This orientation comprises three sets of activities: (1) the organizationwide generation of data about stakeholder groups and assessment of the firm's effects on these groups, (2) the distribution of this information throughout the firm, and (3) the organization's responsiveness to this intelligence as a whole.

Reputation management is the process of building and sustaining a company's good name and generating positive feedback from stakeholders. The process of reputation management involves the interaction of organizational identity (how the firm wants to be viewed), organizational image (how stakeholders initially perceive the firm), organizational performance (actual interaction between the company and stakeholders), and organizational reputation (the collective view of stakeholders after interactions with the company). Stakeholders will reassess their views of the company on the basis of how the company has actually performed. The widespread use of reputation management strategies, along with instantaneous communication via social media and the internet, means that companies must also understand the marketplace of ideas.

Crisis management is the process of handling a high-impact event characterized by ambiguity and the need for swift action. Some researchers describe an organization's progress through a prodromal, or precrisis, stage to the acute stage, chronic stage, and finally, crisis resolution. Stakeholders need a quick response from the company, with information about how the company plans to resolve the crisis, as well as what the stakeholders can do to mitigate any negative effects on themselves. It is also necessary to communicate specific issues to stakeholder groups, including remorse for the event, guidelines as to how the organization is going to address the crisis, and criteria regarding how stakeholder groups will be compensated for negative effects.

Companies are searching for ways to develop long-term, collaborative relationships with their stakeholders. These relationships involve both tangible and intangible investments. Investments and lessons learned through the process of developing a dialogue and relationship with one stakeholder should add value to other stakeholder relationships. These efforts result in social capital, an asset that resides in relationships and is characterized by mutual goals and trust.

The first step in developing stakeholder relationships is to acknowledge and actively monitor the concerns of all legitimate stakeholders. A firm should adopt processes and modes of behavior that are sensitive to the concerns and capabilities of each stakeholder. Information should be communicated consistently across all stakeholders. A firm should be willing to acknowledge and openly address potential conflicts. Investments in education, training, and information will improve employees' understanding of and relationships with stakeholders. Relationships with stakeholders need to be periodically assessed through both formal and informal means. Sharing feedback with stakeholders helps establish the two-way dialogue that characterizes the stakeholder model.

An organization that develops effective corporate governance and understands the importance of business ethics and social responsibility in achieving success should develop some processes for managing these important concerns. Although there are

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many approaches, we provide some steps that have been found effective to utilize the stakeholder framework in managing responsibility and business ethics. The steps include (1) assessing the corporate culture, (2) identifying stakeholder groups, (3) identifying stakeholder issues, (4) assessing the organization's commitment to social responsibility, (5) identifying resources and determining urgency, and (6) gaining stakeholder feedback. The importance of these steps is to include feedback from relevant stakeholders in formulating organizational strategy and implementation.

The Reactive–Defensive–Accommodative–Proactive Scale provides a method for assessing a company's strategy and performance with one stakeholder. The Reactive approach involves denying responsibility and doing less than is required. The Defensive approach acknowledges only reluctantly and partially the responsibility issues that may be raised by the firm's stakeholders. The Accommodative strategy attempts to satisfy stakeholder demands. The Proactive approach accepts and anticipates stakeholder interests. Results from this stakeholder assessment should be included in the social audit, which assesses and reports a firm's performance in fulfilling the economic, legal, ethical, and philanthropic social responsibilities expected by the stakeholders.

Responsible Business Debate

Fashion Brand Weaves Social Impact into Its Fabric

Issue: *Can fashion ever be sustainable?*

Another Tomorrow, a B Corporation-certified luxury clothing brand, has three core pillars it considers when doing business: environmental, animal, and human welfare. What sets the company apart from other environmentally friendly fashion brands is its commitment not only to sustainable and ethical sourcing and manufacturing but also to the fair treatment of its workers. Some argue, however, that the fashion industry is inherently unsustainable despite efforts to minimize its impact. Another Tomorrow hopes to prove critics wrong.

Responsible sourcing narrows the selection of raw materials, so there are fewer options from which to choose. Companies must consider resource efficiency, supply chain transparency, the sustainability of materials, traceability, ecological footprint, and more. Another Tomorrow uses ethical wool, organic cotton, organic linen, Tencel, recycled cashmere, and buttons made from corozo nuts. Its high-end fabrics are woven and dyed according to responsible chemical standards. Sustainable sourcing at scale is a major hurdle for many fashion brands.

Animal welfare is another important consideration for Another Tomorrow. Leather, wool, fur, animal skin, down, and silk are examples of materials that come at a cost. Another Tomorrow sources its wool from two ethical sheep farms in Tasmania, Australia. One of them is run by Nan Bray, a former climate scientist. Another Tomorrow steers clear of silk, which results in killing silkworms in its production, and down from ducks or geese as many of these animals are killed in production. Customers can scan a QR code on any garment to see details of the item's supply chain journey.

Human impact is just as important to Another Tomorrow as its other two pillars. The company pays living wages for all its garment workers, following local standards. Extreme weather patterns caused by climate change have threatened the company's wool supply and its ability to verify the working conditions of its suppliers. As the company diversifies and expands its pool of suppliers, it is focusing on traceability and transparency to support good working conditions.

Critics of the fashion industry suggest it is not possible for clothing companies to be sustainable because of the nature of the business. Clothing production has doubled over the last 20 years as consumption patterns have changed to favor fast fashion. Another Tomorrow, however, operates on a platform for a technology-based circular economy, a framework that involves reducing waste and pollution, recycling materials, and keeping products in use for as long as possible. It sells high-quality investment pieces that are designed to stand the test of time. Even so, reducing waste is an uphill battle as 85 percent of textiles are sent to landfills each year. Another Tomorrow combats this by offering its customers the option to resell their clothes on the company's website.

As a Certified B Corp, Another Tomorrow is a leader in sustainability and meets high standards of performance, accountability, and transparency. This voluntary certification is challenging to achieve and demonstrates

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a commitment to bettering society. Other B Corp clothing brands include Athleta, Bombas, Patagonia, Allbirds, and more. Another Tomorrow hopes to use fashion as a form of activism and set a new standard of what's possible in the industry.

There Are Two Sides to Every Issue

1. Fashion can be sustainable with the right technology and approach.
2. Fashion is inherently unsustainable despite efforts to minimize its impact.

Sources: Another Tomorrow, "Who We Are," https://anothertomorrow.co/about/who-we-are/ (accessed December 27, 2021); Emily Farra, "Another Tomorrow's New Space on Bleecker is About Substance, Not Stuff," *Vogue*, July 20, 2021, https://www.vogue.com/article/another-tomorrow-sustainable-brand-new-store (accessed December 27, 2021); Melissa Godin, "The Climate Threats Facing Fashion's Favourite Natural Fibres," *Vogue Business*, December 2, 2021, https://www.voguebusiness.com/sustainability/the-climate-threats-facing-fashions-favourite-natural-fibres (accessed December 27, 2021); Morgan McFall-Johnsen, "These Facts Show How Unsustainable the Fashion Industry Is," *World Economic Forum*, January 31, 2020, https://www.weforum.org/agenda/2020/01/fashion-industry-carbon-unsustainable-environment-pollution/ (accessed December 28, 2021); Talib Visram, "How to Build a Fashion Brand That Considers Both Its Workers and the Planet," *Fast Company*, November 19, 2021, https://www.fastcompany.com/90699185/how-to-build-a-fashion-brand-that-considers-both-its-workers-and-the-planet (accessed December 27, 2021).

Key Terms

crisis management (p. 48)
enlightened capitalism (p. 37)
ethical misconduct disaster (EMD) (p. 47)
legitimacy (p. 43)
marketplace of ideas (p. 46)
power (p. 43)
primary stakeholders (p. 38)
reputation management (p. 45)
secondary stakeholders (p. 38)
social audit (p. 55)
social capital (p. 50)
stakeholder engagement (p. 38)
stakeholder interaction model (p. 38)
stakeholder map (p. 39)
stakeholder orientation (p. 40)
urgency (p. 44)

Discussion Questions

1. Define "stakeholder" in your own terms. Compare your definition with the definition used in this chapter.
2. What is the difference between primary and secondary stakeholders? Why is it important for companies to make this distinction?
3. How do legitimacy, urgency, and power attributes positively and negatively affect a stakeholder's ability to develop relationships with organizations?
4. What is reputation management? Explain why companies are concerned about their reputation and its effects on stakeholders. What are the four elements of reputation management? How has the marketplace of ideas affected reputation management strategies in companies?
5. Define "crisis management." What should a company facing a crisis do to satisfy its stakeholders and protect its reputation?
6. Describe the process of developing stakeholder relationships. What parts of the process seem most important? What parts seem most difficult?
7. How can a stakeholder orientation and stakeholder map be implemented to improve social responsibility?
8. What are the differences between the reactive, defensive, accommodative, and proactive approaches to stakeholder relationships?

Experiential Exercise

Choose two companies in different industries and visit their respective websites. Peruse these sites for information that is directed at three company stakeholders: employees, customers, and the general public. For example, a company that places its annual reports online may be appealing primarily to the interests of investors. Make a list of the types of information that are on the site and indicate how the information might be used and perceived by these three stakeholder groups. What differences and similarities did you find between the two companies?

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Thai Die…Environmental Exploitation or Economic Development: What Would You Do?

Literally hundreds of buildings dotted the ground below, and the thousands of cars on highways looked like ants on a mission. The jet airliner made its way to the Bangkok International Airport and eased into the humid afternoon. The group of four Global Amusements executives passed through customs and looked for the limousine provided by Suvar Corporation, their Thai liaison in this new business venture. Representing Global Amusements were the vice president of corporate development, director of Asian operations, vice president of global relations, and director of governmental relations for Southeast Asia.

Global Amusements, headquartered in London, was considering the development of a Thai cultural amusement center on the island of Phuket. Phuket is a tourist destination known for its stunning beaches, fine resorts, and famous Thai hospitality. Both Global Amusements and Suvar Corporation believed that Phuket was a great candidate for a new project. The amusement center would focus on the history of Thailand and include a variety of live performances, rides, exhibits, and restaurants. Domestic and international tourists who visited Phuket would be the primary target market.

Global Amusements had been in business for nearly 20 years and currently used a joint venture approach in establishing new properties. Suvar was its Thai partner, and the two firms had been successful two years ago in developing a water amusement park outside Bangkok. Phuket could hold much promise, but there were likely to be questions about the potential destruction of its beauty and the exploitation of this well-preserved island and cultural reserve.

Following a day to adjust to the time zone and refine the strategy for the visit, the next three days would be spent in Bangkok, meeting with various company and governmental officials who had a stake in the proposed amusement facility. After a short flight to Phuket, the group would be the guest of the Southern Office of the Tourism Authority of Thailand for nearly a week. This part of the trip would involve visits to possible sites, as well as meetings with island government officials and local interest groups.

After arriving at the hotel, the four employees of Global Amusement agreed to meet later that evening to discuss their strategy for the visit. One of their main concerns was the development of an effective stakeholder analysis. Each member of the group was asked to bring a list of primary and secondary stakeholders and indicate the various concerns, or stakes, that each might have with the proposed project. What would you do?

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