

How to help managers handle diversity of stakeholders' expectations?

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The Stakeholder theory created by R. Edward Freeman underlines the fact that a company cannot behave by not taking into account its environment to take its decisions. Freeman showed us that companies are dependent from its stakeholders, their support being indispensable for its survival and its good functioning (Freeman, 1984).

Stakeholders are all people or organizations affected by a company's activity. They can be very diverse (neighbors, suppliers, governments, environment...) and many. Stakeholders' theorists tried to determine an analysis framework of all stakeholders, whose goal is to understand how one should react to any demand from any stakeholder and to rank priorities. One of the most recognized attempts is Mitchell, Agle and Wood's one, which recommends to classify stakeholders according to their legitimacy, their power and the level of urgency of their need (Mitchell and al., 1997).

Yet, this classification faces various obstacles. How is it possible to know the legitimacy, power or need's urgency of a given stakeholder? In practice, information is always incomplete and it seems illusory to believe that it would be possible to map all the actors surrounding the company while being sure not to forget anybody. Moreover, stakeholders' relations with the company are extremely shifting and it is difficult to understand precisely the dynamic of their evolutions. Ed Freeman himself does not approve the idea of classifying stakeholders. He advocates that it is impossible to give one only way to handle its stakeholders, which could be implemented in any company and in any circumstances (Freeman, 2010). If it is possible to propose some methodologies to manage stakeholder's demands, it can only be done by taking into account the specificity of every company. If this too precise, or if it edicts some absolute principles, there is the

risk that this methodology could not be implemented in many companies. Everything relies on a specific context. Freeman advocates that it is not the role of philosophers and business ethics theorists to explain to managers how they should behave (Freeman and al., 2010). What is their legitimacy to edict such principles? A philosopher has no right to tell someone else that its vision of the situation is better than the one of a manager who knows its company and its specific context better than him.

According to Freeman, and to its supporters such as Antonio Argoñada, you have to be pragmatic when managing stakeholders (Argoñada, 2010). This is an important difference with the dominant paradigm of stakeholders theory, which rather tries to determine some absolute rules of good behavior. Freeman underlines the need for developing a personal relationship with stakeholders. This is the «names and faces approach» (Freeman and McVea, 2005). Beyond each stakeholder, even when these stakeholders are associations, organizations or institutions, there are individuals. In order to really understand their needs, you need to learn to know their personalities, who these stakeholders are. Argoñada notices that many managers make the mistake of answering immediately stakeholders' needs, without taking the time of building a personal connection with them (Argoñada, 2010). This is a mistake because it is likely that the answer would be wrong because of a misinterpretation of the stakeholder's need. Moreover, needs can be very specific. It is impossible to get an exhaustive list of all the needs that can be expressed by stakeholders, because of their diversity. There is a necessity to take the time for the discussion, for establishing a conversation with the stakeholder, in order to be able to propose a relevant answer to his precise needs. This is what Freeman calls pragmatism, the idea that it through the practices that it is possible to evaluate the handling of stakeholders' needs by

companies, and not by a set of *a priori* principles and processes, that would be unable to consider all the specific situations existing in reality.

Such an approach resonates with a general moral theory, born in the eighties, the ethics of care. The ethics of care was founded by a feminist movement which reproached moral philosophers for having an understanding of morality biased by their white anglo-saxon male condition. The theory has evolved since then and it is not only a simple critical vision but also a new proposition for understanding morality. The notion of care is really specific and is untranslatable in many foreign languages. It means a state of attention, of being able to worry for people around and a willingness to answer people's needs. Care theory is characterized by the following statements (Held, 2004):

- Willingness to listen to others and to satisfy the needs of the people we feel responsible for.
- Emphasis towards emotions and feelings (particularly sympathy, empathy or sensitivity), which are rejected by other ethical theories. These emotions have not to be only observed but also evaluated in order to give these feelings their whole place in ethical reasoning. Feminists contrast with Kant, who was saying that emotions was playing against the credibility of women and their ability to reason (Baier, 1985). On the contrary, care theorists state that using emotions help to strenghten one's judgment, better than when you just try to ignore it.
- Rejection of abstraction and of the universality of principles as something desirable. There is this way a strong connection with the stakeholders theory supported by Freeman. As Freeman says, it is not a good thing to determine absolute principles. That does not mean that our actions cannot be linked to principles, but they have to be reconsidered according to the

context and to other people's reactions. Priority is given to stakeholders' claims on the absolute respect of principles, which should be revised depending on the context, without saying that the violation of the principle has to be automatic. The idea is simply to accept that a principle can be questioned. Care theorists defend this rejection of the too important degree of abstraction of many ethical theories (Urban Walker, 2007).

Each of us cares more or less about people around. However, nobody can pretend that his or her actions are never affected by the environment, and in particular by other people's acts. No individual is autonomous. He or she might not be dependent from the willingness of a transcendental authority, but he or she acts in interdependence with the people who surround him/her. Care supports a conception of the individual as a relational person, and not as an auto-sufficient human being. Contrary to the liberal individualism, care ethicists state that the construction of the identity of the individual is dependent on the relationships this person has established with other people. Then the relations we build with others, with our environment, are part of the definition of the self of each individual. The connection of care ethics with stakeholder theory is very strong. According to Freeman, companies are interdependent with their stakeholders. A company has to define its strategy by taking into account its relations with stakeholders, the same way an individual has to do with the persons around him, if we follow the vision of care ethics.

A company has a specific identity, different from the one of other companies. This identity is represented by a corporate culture. Corporate culture is a social phenomenon where the members of a given social group share norms, practices and beliefs. In Freeman's vision, and this is the same in the ethics of care, the notion of culture is underlying as it is the element which is going

to influence the way company's members will behave, in particular with the stakeholders (Jones, 1995).

If we agree with Freeman and the care theorists to say that there is not a good corporate culture in absolute, it is also true that there are better ways to behave with stakeholders than others. The question we will examine is as follow : in what the approaches we described above can help managers to make the best possible decision, in particular when stakeholders' interests are divergent ?

Discussion

Companies' practices are very diverse in the way they handle their stakeholders in their daily decisions. This diversity shows that it is almost impossible to classify these practices in an *a priori* framework. For example, we could suppose that a company caring about its stakeholders should answer their needs. Yet, some companies became popular by creating this need and not simply answering it. Apple's Ipad became very popular, while all analysts did not know what would be the utility of this object. However, Apple's users were very enthusiastic when the Ipad was available on the market. It appears that Apple decided to launch a product whose goal was not to answer any expressed need. Apple did so because it created a particular relationship with its stakeholders, which is to surprise them, to show them what their future daily life will be. Other companies would rather react simply to the expressed needs of their customers. Stakeholders and the company create a specific relation with each other.

We could also suppose that a company who wants to integrate its stakeholders in its strategy would prioritize its customers' needs. Customers have indeed a huge power on the company.

They have the legitimacy to be listened to and their need can be quite urgent, or otherwise, they would not be ready to pay for a product or a service. According to Mitchell, Agle and Wood's methodology, they would be a very important stakeholder to consider (Mitchell and al., 1997). Yet, a company such as Google focus all its attention not only towards its customers (the persons who pay for getting some publicity on Google), but above all to its users, who can use for free Google's services. This is the same logics for Youtube or Facebook. Thus, a stakeholder that is not recognized as the most important by Mitchell, Agle and Wood's proposal (the user) would still be a top priority for Google.

A general mapping of all companies' stakeholders seems a very difficult task to accomplish. The elements we gave on Apple or Google are part of their identity, of their corporate culture. These companies create a particular relation with their stakeholders. This relation and its history explain what the stakeholders are expecting from the company. Organizations' sociology is precious here to deepen our analysis. In *L'acteur et le système*, Michel Crozier and Erhard Friedberg try to analyze the degree of freedom of every member of an organization when she is confronted with all the organizational constraints with whom she has to deal with (Crozier and Friedberg, 1977). Among these constraints, corporate culture is a particular strong one. Let's take an example. In the eighties, Johnson and Johnson (J&J), the big pharmaceutical company, built its reputation by its noticeable behavior when confronted with an important scandal (ICRM, 2002). J&J had launched the Tylenol, a pain killer. Seven deaths happened in 1982 to people after using the medicine. The company's credo, very strong in its corporate culture, was to always put at first the customers' interests¹. This credo consists in a corporate culture described and formalized in writing in a specific document. It underlines the notion of

¹ The credo is available at <http://www.jnjcanada.com/our-credo.aspx>

responsibility and the priority given to customers and to users of J&J's medicines. J&J decided to act accordingly to its credo and recall all their Tylenol products whereas J&J's responsibility in the deaths was not proved at all. It costed the company billions of dollars, but it strengthens their corporate image. Their popularity was even bigger when it appeared the the Tylenol was not in cause in the deaths that provoked the recall. What is interesting in terms of culture is that J&J's reaction leads its stakeholders to expect the same behavior from the company if a similar case was occurring again. At the end of the eighties and in the beginning of the nineties, people had suffered organs' transplants following an overdose of Tylenol. J&J was not in cause but a media pressure and some judicial proceedings were led against J&J in order to force them to change their etiquette labeling by including a warning against the risks of Tylenol 's overdose. J&J did not show the same pro-activism than during the 1982 crisis, and the company waited until 1997 and a specific recommendation from the Federal Drug Administration (FDA) before changing the etiquette. The pressure was high on J&J also because its reaction to the 1982 was quick and impressive. That's why its stakeholders were expecting a similar reaction when the overdose scandal came into air, whereas they may not have had the same requirement from another pharmaceutical company. This is an example of the way corporate culture (which is, in the case of J&J, to give priority to customers' interests) builds the relationship of the company with its stakeholders. J&J did not realize that its stakeholders' requirements were so high because of their previous reaction to the 1982 crisis. They believed they could avoid from changing the etiquette, which costed them billions in legal proceedings. This shows how important it is to take into account the corporate culture when you take a decision.

Corporate culture is then a very important element to take into account when a company needs to decide how it will handle its stakeholders' expectations. Each company has its specific way to do it. J&J is first concerned by its customers' interests, Google by its users. Other companies such as HP or Toyota put at first the well-being of their employees. A company like Salesforce.com communicates essentially above its internal organization and the fact that it tries to give meaning to their employee's involvement in the company by giving them a chance to get involved in volunteering. By studying a corporate culture, it is then possible to identify the stakeholders having the priority for a specific company. Yet, the question that many managers have to deal with is to know how they should react when two stakeholders have diverging interests. How do you do when the interests of your employees, who want a rise of their salary, is contrary to the ones of the customers who demand better prices? From our previous analysis and with the help of Freeman and care theorists, a methodology in three points can be proposed:

1. Once the contradictory needs have been identified, the first reflex has not to be to try to choose between the two stakeholders. In many cases, it is possible to find a solution that will satisfy both people, and this thinking has to be made first. Freeman considers that the expression of divergent interests shows that there may be a mistake in the way the company is looking at the issue. It can be the occasion to reconsider the stakeholders' needs in order to see if there is a way to answer both expectations. Salesforce.com's case can help us to understand how. When he created its start-up in 1999, Marc Benioff, Salesforce.com's CEO, had several options in front of him (Benioff, 2004). He wanted to create an online service proposing softwares to companies, and in particular CRM (Customer Relationship Management) products. As a young company, Salesforce.com had several stakeholders. Two were particularly important. On one side, there were the employees that Benioff was going to hire: young professionals,

who wanted to work in a company that would be able to give meaning to their actions, which is one of the main characteristics of what we call now the Generation Y (Howe and Strauss, 1992). On the other side, there are the customers that Benioff wanted to convince. They wanted to get the best possible service at the lowest cost. In a traditional thinking, if Benioff wanted to propose Salesforce.com's services for a low price, he had to limit his expenses and would have some difficulties to get involved in the CSR actions that the employees would like to get involved in. This kind of dilemma is very classic for every entrepreneur, who often has to make compromises between the idea he has of its company and the figures' reality. However, Benioff refused to make a choice. He decided to adopt a strategy that will allow him to create a company with the CSR culture he was dreaming of and he made that one of the main strengths of its company and a sales argument for its customers. Benioff created a foundation as soon as he founded the company. The foundation uses a philanthropy model based on the following criteria:

- 1% Equity: helps found grants for young people and on technology issues;
- 1% Product: gives licenses to nonprofit organizations ;
- 1% Time: gives the occasion to any employee of salesforce.com to volunteer during six paid days off a year.

Thanks to the foundation, Benioff could on one side attract and keep great employees (and the competition to keep talents is very strong in the Silicon Valley) who were happy to give meaning to their action, thanks to the volunteering days (Taber, 2009). Benioff's strategy also allowed him to create in his company a corporate culture around the notion of care, and the attention to others' issues. This had an impact on the practices of the company in the quality of service provided by Salesforce.com's employees. This care culture allow them to

develop more easily empathy towards their customers when they are facing an issue. They do their best to help the customer, which allowed Salesforce.com to reach a very good customer's satisfaction rate. Whereas at the beginning customers and employees' desires looked opposed, Benioff found a way to give both employees and customers a source of satisfaction.

Yet, you may sometimes lack time or creativity to find such a good solution to answer two opposite needs from your stakeholders. It is then necessary to go further by adopting the two following points before making a decision.

2. The second step, that you enact only if the first one failed to give you an answer, is to lead a real ethical reflection taking into account two elements :

a. What would the corporate culture advise me to do?

This step's goal is to better understand what the stakeholders are expecting by analyzing the company's habits in the situation you have to react to. In the J&J's case described above, when the overdose affaire came out, the pharmaceutical company could have thought that, as it created a specific relation during the 1982 crisis, it should show again how much it cares for its customers in this affair, and add at once a warning against overdoses on the Tylenol's etiquette. That is what J&J's corporate culture would have advised to do, but it was not the taken decision by J&J management, who preferred to wait for a recommendation by the FDA before doing anything. Learning to recognize what the company would usually do in a specific case, force managers to analyze the corporate culture and so to have it in mind when a decision needs to be taken.

b. What is my personal bias in this situation?

The analysis of corporate culture and of the reactions of the company in the past gives a first idea to what could be done. The second thing to consider is whether there is any bias in the answer that will be given to stakeholder's needs. Care theory says that any decision maker needs to be aware of the influence of her emotions on her decisions. If everybody tends to rationalize her actions, it is nonetheless true that an individual acts first according to her mood, her impulses. Denying that you can behave irrationally is the best way to actually miss the point and take bad decisions. This idea was made famous by Emily Pronin's works under the name of "bias blind spot" (Pronin and al., 2002). Pronin describes the idea that we all have some biases that we tend not to be aware of. Her studies show that people are able to see these biases on others, but cannot really see them on themselves. That is why these biases are blind spots that we have to be trained to recognize. The most quoted bias blind spot is that 90% of the population thinks they are better than average, which Pronin calls the better-than-average effect. Another example could be this one. When a manager is confronted with a stakeholder who, for example, will have a very different political opinion than him, he could easily be influenced by this judgment if he has to choose between the demands of this stakeholder and the one of another stakeholder who would share the same convictions as him. If the manager is aware of this bias and trained to act on it, it should not be an issue anymore because she would be able to differentiate her feelings from where the interests of her company lie. However, if managers were not aware of this bias, it would be very difficult for them not to be influenced by it.

Let's take the example of Toyota and of its recent issues in the American market when the Japanese company refused during several years to take responsibility for a fabrication default of their cars. When the first incidents occurred in 2005, around an issue with the gas pedal, the first reflex of the management was to accuse the suppliers of floor mats. An other supplier was

chosen but the issue remained and Toyota still needed some years before acknowledging that the issue could indeed be with its own gas pedal. Why did they react like that? Toyota was a leading company in its sector since the imposition of its development model, which puts an emphasis on a very important quality check and on a continuous desire to answer their customers' specific needs. Toyota was thus quoted as an example in many business schools and this management model was studied as an example. Management was so much convinced that the problem could not come from Toyota, that they lost a lot of time blaming others and looking for someone else's mistake. Their vision of reality was biased by their past references and prevented them from understanding the issue as fast as they should have. A former NHTSA administrator, Joan Claybrook, said that "Toyota for years has been one of the most difficult auto makers for regulators to deal with because it is resistant to being told what to do" (Linebaugh and al., 2010).

This second stage is a good way to evaluate and think about the biases that someone could adopt when confronted with a given situation. It gives also an idea of what the corporate culture would advise to do.

3. Eventually, the last step of the proposed methodology consists in determining, whether it makes sense, in the given situation, to follow the corporate culture, or not. We saw that any company creates particular bonds with its stakeholders, depending on its own culture. This culture creates expectations from those stakeholders, who will not expect the same attitude or reaction from Apple or Microsoft when a new product is launched. The expectation towards Apple would be more important, because the culture of the company is to create excitement and suspense around new beautiful and easy-to-use products. Everybody expects Apple to produce such tools, whereas people expect less from Microsoft. Even if people expect great products from Microsoft too, marketing failure is not an option for Apple, because it is a key element in

Apple's culture and success. However, there are cases where following its culture might be a bad choice. To show this argument, we will have a look to "the HP way". HP developed a strong corporate culture since its creation, centered around the attention given to its people (Hodgetts and Hegar, 2008). The HP Way was to protect employees to let them work in great conditions. However, in the 1990s, the economic situation became more difficult for the company, who was not anymore the champion it used to be. The Board called then a new CEO, Carly Fiorina, to come and improve the company, to improve "the HP Way." After a quick assessment, Fiorina decided that the HP Way needed to be changed, and employees rights needed to be questioned. Her method was brutal because it led to mass redundancy and a reconsideration of employees' benefits. First results were a disaster with a fantastic collapse of the financial results of the company, linked to the lack of consideration of Fiorina towards her employees. Fiorina created a very hostile culture against herself, which led to her own redundancy (Stewart, 2007). However, the company since then went back to a virtuous circle of growth. Debates still exist around the question of the role of Fiorina in this new success. What is still true, anyway, is that questioning the corporate culture helped the company to renew and create new bases for success. Fiorina considered the HP Way and judged that it needed to be questioned and prevented the company from necessary evolution. She did not hesitate in reinvestigating the culture to solve the performance issues of the company, even though she probably misestimated the force of that culture and the resistance to change.

The proposed methodology is then threefold when there is a discrepancy to be solved between the needs of different stakeholders. Firstly, it is important to ask oneself if there is a creative and innovative way to answer *a priori* divergent needs. If that first steps cannot be followed by lack of time or creativity, it is then necessary to analyze its own corporate culture and pay attention to

the biases it has (as well as our own biases as individuals.) This second step is very important as it permits to deeply analyze the environment before taking any action and therefore to have a truly ethical reflexion. Thirdly, the last step consists in deciding whether it is best to follow its habits and its corporate culture, as each culture tends to give preference to one certain stakeholder over another (clients over anything else at Apple, employees over anything in the old HP way, users over the rest at Google, etc.). However, it is important to not be misled by its own corporate culture (and the second step analyzing our culture AND our biases is key for that) and to sometimes know to go against our culture. An evident follow-up question is then the following : what can help a manager know whether it is valid or not to follow the corporate culture in a given situation ?

Two elements can be taken into account to correctly analyze the situation. First, it is primordial to know the involved stakeholders. To do that in a proper way, it is important to develop personal relationships with those stakeholders to know their needs with precision. Then, ethics of care can help develop the analysis by understanding and using our emotions to better understand the situation. In the contrary to deontological ethics, ethics of care shows that the traditional opposition between rationality and irrationality is counter-productive and that feelings like empathy or sympathy are needed to truly understand the situation of others, to identify with their needs, a *sine qua non* condition to truly answer those needs. This is what should guide a decision when facing two stakeholders with divergent needs. The idea behind stakeholders theory is the following : as the activity of an enterprise affects people, it creates responsibility for this enterprise towards those people, and this should guide its decisions. Some corporate culture will naturally go for this way, but it is important to keep in mind that those cultures are on the right

track as long as they still recommend to take into consideration the consequences of the company's decisions on others. This is what it takes to be responsible.

Conclusion and limitations.

The proposed methodology gives an answer to the management of diverse stakeholders by executives or employees. Research would however still be needed on some aspects. Firstly, the classical critic done to Freeman is to say that by placing ethics at the same level than corporate practices and by accepting that there is no absolute principles, a risk arises to legitimate immoral corporate cultures. It seems difficult to free oneself of any normativity in the field of ethics. We think that care is a good way to answer this critic by enunciating a normative principal in the middle of revisable principles that Freeman recommends to establish. This principle would be to always conduct your actions with the view to care for others, to take care of their becoming, to be accountable and responsible, to be able to put yourself in their shoes and to understand their problems. For the ethicists of care, this principle is the basis of any human behavior and should be at the center of our decision-making. It would be interesting to conduct research in order to see whether this principle is always a good adviser to help take into account stakeholders in our decisions.

This methodology requires also to be tested in companies with very different corporate cultures. The goal would be to evaluate how difficult it is for a company member to understand its corporate culture and if the level of understanding is different depending the industry of the size of the company.

At last, it would be desirable to define training tools for company members in order to help them analyze their corporate culture, and their personal biases in order to allow them to take their decisions towards their stakeholders by knowing all the facts. Such a sensitization would be a great step towards more responsible actions by companies towards their stakeholders.

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