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# Stakeholder management as a source of competitive advantage: A relationship and portfolio perspective

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Today's firms face threats and opportunities arising from a variety of stakeholders, including shareholders, bondholders, employees, customers, suppliers, joint-venture partners, regulatory agencies, communities, governments, labor unions, advocacy groups, and the natural environment. Stakeholder management involves implementing organizational policies and practices that take into account the goals and concerns of relevant stakeholders, in a manner that is consistent with the firm's enterprise-level strategy and profit-making purpose.

A key question in stakeholder management is "who and what really counts." Well-established prioritization criteria are the stakeholders' relative amounts of power, legitimacy, and urgency. Yet, despite the view that stakeholder management is important for value creation, managers lack a clear guidance about what an overarching stakeholder management strategy looks like. Consequently, the purpose of this article is to offer a comprehensive picture of stakeholder management that goes beyond the firm's dyadic relations with particular stakeholders to consider stakeholder portfolios. To do this, we present two typologies capturing the choices top managers use to align stakeholder management with the firm's strategy, and provide multiple examples of how specific multinationals are achieving this alignment.

The concept of strategy-stakeholder management alignment is clearly captured in research on sustainability by Dung Nguyen and Stanley Slater when they state: "Commitments to the environmental and social bottom lines cannot simply be altruistic endeavors. If that were the case, superior financial performance would never be realized. Consequently, the firm must seek opportunities to apply the principles of environmental and social responsibility in such a way that the firm is more effective at satisfying the needs of its customers or more efficient in the way that it conducts its business." Three firms that clearly exemplify this strategy-stakeholder management alignment are IBM, Unilever, and Federal Express.

Forbes magazine described the IBM's Smarter Planet initiative as a case of business transformation through corporate citizenship. Smarter Planet seeks to involve leaders in business, government, and civil society around the world in capturing the potential of smarter systems to achieve economic growth, efficiency, sustainable development and societal progress. Through Smarter Planet, IBM established itself as an innovator in corporate responsibility and, at the same time, the company transformed itself from a hardware company to a provider of global integrated services.

A similar transformation occurred in Unilever after the arrival of Paul Polman, who became the CEO in 2009, when the company's financial position had been stagnant for a decade. Polman introduced a growth strategy including ambitious environmental and sustainability goals, and the Unilever Sustainable Living Plan. Unilever's chief sustainability officer noted that "putting sustainability at the core of our business and making sustainable living commonplace resonates with consumers everywhere . . . We've connected sustainability to Unilever's strategy with a business model that delivers higher returns. It's given a greater purpose to our business." At Unilever, aligning stakeholder management and strategy resulted in its social mission becoming more impactful and meaningful by being wholly integrated into the business model. To clearly signal this alignment, Unilever also made dramatic changes to its reporting and investor practices by getting rid of earnings guidance and quarterly reporting, selecting long-term-oriented shareholders, and avoiding hedge funds as investors.

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Another example of such alignment is Federal Express (FedEx), which has been a leader in understanding that profit, reputation, and stakeholder satisfaction are closely interrelated and interdependent with one another. At FedEx, transportation is the most important core activity and area of expertise. FedEx is an innovator in environmental approaches associated with transportation, which include an upgrade of its airplane fleet, modernization of its delivery trucks, and improvement of its packaging methods.

Stakeholder management-strategy alignment is not only captured in a firm's value chain and value proposition, as the previous examples show, but can also be observed in charitable giving by Fortune 500 companies. A 2012 report by the Committee Encouraging Corporate Philanthropy, in association with The Conference Board, concluded that, particularly after the 2008 recession, businesses gave more in more strategic ways. Companies are aligning their contributions with areas that best reflect their interests, and areas where they can use the expertise of their business. Technology firms, for example, tend to support education, because talent is critical to these companies, and educational programs can help groom and train future employees. For instance, Intel targets education in its philanthropy, and also has a broad array of computer-literacy initiatives around the world, such as "Intel Teach", a 14-year-old program that has trained more than 10 million teachers in 70 countries to incorporate technology in their classrooms.

In the next sections, we discuss two levels of decisions: the unique stakeholder relationship and the firm's overall portfolio of stakeholder relationships. At the stakeholder relationship level, we ask two questions: *Can the firm provide value to this stakeholder while enhancing its drivers for cost leadership or differentiation? When providing value to this stakeholder, will the firm engage in radical innovation or in incremental innovation?* As a result, we describe four stakeholder relationship types: *Strategic Innovator*, *Strategic Maintainer*, *Tangential Innovator*, and *Tangential Maintainer*. Firms have a portfolio of these stakeholder relationships.

At the stakeholder portfolio level, we ask these questions: *How many stakeholder relationships will the firm maintain? How many types of stakeholder relationships will the firm use?* As a result, we describe four stakeholder portfolio types: *Homogeneous Focused Scope*, *Homogeneous Diffused Scope*, *Heterogeneous Focused Scope*, and *Heterogeneous Diffused Scope*.

We propose our typologies as a practical tool with which managers can reflect on and decide about the strategies they pursue for developing relationships with stakeholders, and for managing the overall portfolio of these relationships.

## STAKEHOLDER MANAGEMENT

### Relationship Level

Stakeholder relationships involve finite patterns of decisions, such as investments in philanthropy, pollution prevention and cleanup, consumer-product safety, workplace safety, human rights, governance, community development, and sustainability. Firms differ not only in the stakeholder areas that they choose to operate in, but also in the extent to which they attempt to find synergies between their strategic goals and stakeholder relationship objectives, and in the innovation and creativity they bring to their engagement with stakeholders.

An essential element of stakeholder management is how firms' top leaders determine which stakeholders are the most appropriate for the companies to respond to and what those stakeholders' legitimate interests are. For example, the legendary founder of Southwest Airlines — Herb Kelleher — used to proclaim that employees ("not customers or shareholders") were most dear to him because happy employees will make customers happy; happy customers will come back, which will eventually make shareholders happy, too. Southwest has implemented a generous profit-sharing scheme, basically turning employees into shareholders. At the same time, focusing on employees as an important stakeholder group helps Southwest to create a culture of engagement and fun that complements the company's low prices and is attractive to customers.

The National Association of Corporate Directors has stated that boards should identify which stakeholders are critical to the firm's strategic plans, and target communications to those groups. Researchers have put forward a number of ways in which a firm can respond to its stakeholders, once saliency is determined. One proposal is that of Edward Freeman, who argues in his book, "Strategic Management: A Stakeholder Approach," that firms should determine the degree to which stakeholders have cooperative potential (CP) or competitive threat (CT). Based on these dimensions, he creates four categories of stakeholders: "swing" (high CP and CT), "defensive" (low CP and high CT), "offensive" (high CP and low CT), and "hold" (low CP and CT). Freeman sees the greatest value coming from a "change the rules" strategy toward swing stakeholders; this strategy would change or influence the rules of the game which govern relationships with this type of stakeholders.

Firms may respond to stakeholders substantively or in a manner decoupled from their activities, and leverage power bases or network positions in order to resist stakeholder pressures. However, all these approaches focus on firms' responses to demands and pressures from stakeholders — that is, an "outside-in" approach. The stakeholder literature has paid much less attention to firm-specific factors that impact its stakeholder relationships, or the reasons why firms vary widely in their approach to stakeholder relationships.

### Portfolio Level

Stakeholder management requires simultaneous attention to the legitimate interests of all appropriate stakeholders, both in the establishment of organizational structures and general policies, and in case-by-case decision making. Firms do not simply respond to each stakeholder individually; they respond, rather, to the interaction of multiple influences from the entire stakeholder set. In fact, in the book "Conscious Capitalism", Whole Foods Market's co-CEO and co-founder, John Mackey, advocates for business to integrate needs of all stakeholders, arguing that "as business rediscovers a higher sense of purpose, it can create a value for all stakeholders".

Researchers have proposed that the nature of firms' responses to stakeholders varies with their life-cycle, their