Your report should begin with a description of the focal organisation, as well as a brief description of the issue facing the organisation. It is important that you focus primarily on how the issue may threaten the existence or growth of the firm. This section should be approximately 200 words in length.

You are then required to undertake four of Preble’s (2005) six steps for stakeholder management



 **1: Stakeholder Identification**

Although there are a number of classification schemes suggested in the literature, for example, Whysall (2000) (internal, marketplace, external), Hitt, et al. (2001) (capital market, product market, organizational), we will use the Clarkson (1995) typology discussed earlier in the paper to assist in identifying stakeholders. The author chose this typology because it has the dual advantage of being both straightforward and comprehensive. Primary stakeholders are those whose continuing participation is required if an organization is to survive, e.g., shareholders and investors, employees, customers, and suppliers. Public stakeholders provide the firm with infrastructure and legal frameworks in which to operate, e.g., governments and communities. Finally, secondary stakeholders are those who influence or affect, or are affected by, the corporation, but are not engaged in direct transactions with it and are not essential for its survival, e.g., the media and special interest groups. The goal initially is to identify all stakeholders in which the organization has an interest, as well as those who have an interest in the firm and could, therefore, influence it either directly or through *interactions* with other stakeholders. The proper *attitude* to adopt, as argued by Donaldson and Preston (1995), is that the interests of all stakeholders are of intrinsic value and merit consideration by the firm. For example, U.S.-based Nike Corporation, one of the world's largest apparel/footwear companies operating on all six continents, according to its first Corporate Responsibility Report (Nike Corp., 2001), historically considered only stakeholders with which they had a financial relationship (i.e., employees, consumers, retailers, suppliers, investors, and recipients of corporate giving) in their business decisions. More recently, activist groups have made allegations that Nike has committed human and labor rights abuses and environmental damage in its foreign subcontractor factories. As a result, Nike has faced negative media exposure, college student protests, legal challenges, and an Internet protest site that advocates boycotting Nike products. Thus, Nike has been persuaded to open up beyond its primary stakeholders and to include environmental organizations, human rights groups, students, colleges, unions, socially responsible investor groups, governments, academia, and consumers (Nike Corp., 2001).

While Clarkson's (1995) typology and Nike's illustration are instructive as to whom a company's stakeholders might be, it should be noted that the actual stakeholder groups identified will be dependent on a firm's size, industry, and the location of its headquarters and operations. Once the stakeholder identification process is complete, it is often useful then to construct a stakeholder map to get a visual picture of the stakeholder set that is relevant to the organization (see Figure 2). It needs to be recognized at this point that this map is merely illustrative and represents a simple, visual depiction of an organization's stakeholders. More complex and comprehensive maps are possible, as shown in Freeman (1984), and stakeholder maps may be constructed based solely on a key issue that is of interest to the firm and the stakeholder. As reported in Nike's 2001 corporate responsibility report, Nike has recently realized a need for a more formalized approach to stakeholder engagement as a consequence of connecting with an overwhelming 100-plus external nonprofit stakeholder groups and has collaborated with SustainAbility, Ltd. (a UK-based sustainable development consultancy) to create a stakeholder framework (i.e., map) similar to the one presented here in Figure 2.

[](http://onlinelibrary.wiley.com.ezproxy.scu.edu.au/store/10.1111/j.0045-3609.2005.00023.x/asset/image_n/BASR_023_f2.gif?v=1&t=imm4ms57&s=b1bfe0c6bbc9df325222a6d121c5174c3e1d3a21)

**Figure 2.** Stakeholder Map *Source*: Freeman (1984).

**Step 2: General Nature of Stakeholder Claims**

It is useful once stakeholders have been identified (step 1) to make an initial assessment as to the general nature of the various claims or expectations that these stakeholders might have on the firm. These stakes help to define what type of power a stakeholder possesses and what kind of a response would be appropriate for the firm to consider relative to each stakeholder. The nature of a stake in the firm can range from an equity stake to that of an influencer with groups in the middle of the continuum having an economic or market stake in the firm (Dill, 1975; Freeman, 1984). Shareholders have a financial equity stake in the firm, which gives them voting power, economic power in that they can sell their stake, and political power, which could be exercised at the company's annual meeting as in the case of a dissident shareholder. Customers have economic power vested in their purchasing decision and their ability to file product liability lawsuits when a product fails or endangers or injures its user. Aggrieved consumers can also exercise political power by filing complaints with consumer or government agencies. In line with recognizing the general nature of stakeholder claims, Royal Dutch/Shell Group of Companies, in its Statement of General Business Principles (Shell International Limited, 1997), recognizes responsibilities to these categories of constituents: shareholders, customers, employees, contractors, suppliers, and joint venture partners, and society. For example, Shell vows to protect shareholders’ investment and provide an acceptable return, and with respect to customers, it intends to win and maintain them by developing and providing products and services that offer value in terms of price, quality, safety, and environmental impact, which are supported by the requisite technological, environmental, and commercial expertise.

Governments represent another claimant that can have a strong influence on the organization formally and economically, for example, in the United States, through the Securities and Exchange Commission, the Environmental Protection Agency, and the Occupational Safety & Health Administration. Additionally, consumer advocates like Ralph Nader in the United States and the UK-based group Ethical Consumer (an alternative consumer organization) can have a direct influence on the firm should they decide to lead a consumer boycott of a firm's product(s), thus inflicting economic pain or by lobbying the government for protective legislation. Lastly, influencers are said to have a *social stake* in the firm by simply being interested in its activities (Harrison and St. John, 1996). The above examples are not meant to be exhaustive, but are rather illustrative of the kinds of stakes and power implications that need to be examined as part of the proactive assessment of stakeholder positions. To be effective, however, this analysis must be pushed further to examine the precise expectations of stakeholders and to what extent these goals and needs are being met by the organization.

**Step 3: Determine Performance Gaps**

This step involves assessing each stakeholder's expectations, needs, and/or demands on various issues and comparing them to an organization's behavior on these dimensions to see if performance gaps exist (see Figure 1). Frooman (1999) argues that the stakeholders’ theory is fundamentally about managing *divergent* interests of managers and their stakeholders. Initially then an organization must learn what their stakeholders want from the firm and determine if it is different than what the organization is providing. Once gaps are identified, strategies can be devised to reduce these gaps and therefore minimize the potential conflict that could result in disruptive and costly stakeholder actions against the firm.

Determining stakeholder expectations can be a complex process. For remote stakeholders like environmental activists, open channels of communication may not exist and, therefore, expectations may need to be forecasted (Polonsky, 1995). More recently, however, organizations can carefully analyze the Web sites of “special interest groups” to help determine remote stakeholder expectations. Additionally, an organization may need to determine the expectations of even dangerous stakeholders (e.g., disgruntled employees, terrorists) where dialogue is deemed undesirable (Mitchell et al., 1997) or impossible. For example, McDonald's has often experienced bombings and trashing of its international locations. In this case, the firm should strategize to reveal opportunities for meeting the expectations of those stakeholders or at least mitigating the dangers posed by them and thus increase organizational preparedness. McDonald's endeavors to make its international locations appear as *local* as possible by hiring all locals in order to reduce antiglobal or anti-American sentiment.

The expectations of other stakeholder groups might be more easily discerned. In the case of unions, organizations are aware through prior negotiations, policy statements, and ongoing dialogue precisely what the union wants and needs and how well these are being provided by the management. Thus, performance gaps can more easily be identified by management. Similarly, in the case of hospitals, key stakeholders can often be readily identified (medical staffs, patients, hospital managements, professional staffs, board of trustees), and expectations can then be directly discerned via open communication (Kumar and Subramanian, 1998). For example, the *medical staff* (physicians and nurses) wants to be able to deliver high-quality clinical care, which may require expensive, technologically advanced services and facilities, while *patients* require high-quality clinical care and service at reasonable costs.

Social and environmental stakeholder groups may have both specific expectations for firm behavior like a maximum amount of pollutants to be emitted and general desires such as a firm should be operating in a socially responsible manner. Social audits have evolved as a method for organizations to accurately identify stakeholder expectations in such cases and continually monitor changes in organizational performance with respect to those expectations. Downing (1997) advocates a “triple bottom line” approach to public accountability (economic, environmental, and social performance) in order to satisfy key stakeholders’ social aspirations and adequately measure the wealth-producing capacity of a company for its key stakeholders. Additionally, eight quality principles have been developed for social and ethical auditing by the UK-based Institute for Social and Ethical Accountability (Zadek 1998).

Analytically, some organizations may wish to push the process further by looking not just at what stakeholders expect or want, but at the question of what means they might use to get it, i.e., stakeholder influence strategies. This requires looking not only at organizational attributes or stakeholder attributes, but also at the *relationship* between the firm and the stakeholder. Frooman (1999) does this by examining the resource relationship (who is dependent on whom) and develops four types of stakeholder influence strategies: direct withholding, direct usage, indirect withholding, and indirect usage. Similarly, Rowley (1997) uses the social network theory to construct his own theory of stakeholder influences, which takes into account multiple, interdependent stakeholder demands, and describes and predicts how organizations respond to the simultaneous influence of multiple stakeholders. Friedman and Miles (2002) recently developed a stakeholder model (drawing on a realist theory of social change and differentiation) that highlights the *range* of organizational/stakeholder relations (including extremely negative and highly conflicting relations) and the *dynamics* of these relations over time. These authors provide a rich and detailed illustration of how and why the global environmental group, Greenpeace's corporate relationship has evolved over the last three decades. In the most recent phase 4, the Greenpeace/corporate relationship is characterized by compromise on both sides and is concerned with finding workable solutions to various environmental problems and issues through collaboration and joint ventures, despite the parties possessing incompatible interests generally. Finally, Fineman and Clarke (1996) detail the following methods that can be used by “green” pressure groups: conservative persuasion (“environmental care is good for business”); moral exhortation (“it's your duty to care for the environment”); and direct confrontation/sabotage (“ecotage”). The reader is referred to the above articles should they desire to explore these approaches further.

Through the above methods, organizations can determine stakeholder expectations and demands, compare these with their organization's behavior, and thus determine where key gaps and conflicts exist. Additionally, organizations may explore during this step not just what stakeholders want, but how they might intend to get it through stakeholder influence strategies. Since organizations may not possess sufficient resources to simultaneously address all gaps, the next step will be to prioritize where efforts will be initially focused.

**Step 4: Prioritize Stakeholder Demands**

While this paper has taken the position that all stakeholder entities merit consideration, and has tried initially to identify all relevant stakeholder groups, it is also recognized that managers and organizations have limits on their time, cognitive information processing capabilities, and resources. Thus, this step will focus on ways to help sort out which stakeholder groups will command or deserve managerial attention at different points in time, i.e., be perceived as having *priority status*.

As discussed earlier in the paper, Mitchell et al. (1997) advanced a theory of stakeholder identification and salience (the degree to which managers give priority to competing stakeholder claims) based on the extent to which managers perceived stakeholders to possess power, legitimacy, and/or urgent claims. Agle et al. (1999, p. 508) later provided partial empirical support for this model using data from CEOs of 80 large U.S. firms. Similarly, an empirical study of four UK industries (supermarkets, automotives, power, and chemicals) with regard to green stakeholders, conducted by Fineman and Clarke (1996), is also broadly supportive of this model. In highlighting the manager as an interpreter of stakeholder influence (based on industry culture and management values), these authors found environmental campaigners and industry regulators to be recognized by managers to be highly salient stakeholders based on their perceived legitimacy and ability to pose a threat to injure or embarrass the industry. On the other hand, customers, creditors, employees, and environmental accreditation schemes were not influential with respect to influencing an industrial green agenda as they didn't possess or hadn't developed multiple-attribute salience.

Mitchell et al. (1997) developed seven stakeholder types based on whether they possessed one, two, or three of these attributes in various combinations. *Latent stakeholders* have little salience to management as they possess only one attribute. For example, *dormant* stakeholders have power, *discretionary* stakeholders possess legitimacy, and *demanding* stakeholders have only urgency, but no power or legitimacy. However, should one of these stakeholder entities gain access to another attribute their salience would increase markedly. *Expectant stakeholders* possess two attributes and moderate salience to managers as a consequence. Thus, *dominant* stakeholders possess power and legitimacy and form the “dominant coalition” of the enterprise (Cyert and March, 1963) e.g., owners, employees, large creditors, community leaders, etc. *Dependent* stakeholders, like oil spill victims, lack power, but have both urgent and legitimate claims. Gaining access to government agencies and the courts could provide these stakeholders with the power they lack initially. *Dangerous* stakeholders have both urgency and power, but lack legitimacy. However, because they are potentially dangerous to the firm they must be managed carefully, as discussed earlier. Finally, *definitive* stakeholders have a high degree of salience as managers perceive power, legitimacy, and urgency to be present simultaneously. For example, institutional investors holding large blocks of company stock that is plummeting in value, require immediate attention by management as a very high priority stakeholder. Of course, *nonstakeholders* are at the other end of the continuum as these entities have no power, legitimacy, or urgency in relation to the firm and, therefore have little or no salience to the firm's managers.

An alternative framework for determining which stakeholders are the most important at a given point in time and thus deserve *priority status* by management was recently developed by Harrison and St. John (1996). They suggest an increased need to manage stakeholders more strategically (i.e., partnering) based on recent changes in firm operating environments. These changes include a decline of the traditional management hierarchy, a hollowing out of corporations and an emphasis on boundaryless organizations. Stakeholders are considered to be strategically important (priority) to the extent that they can influence the amount of environmental uncertainty faced by the firm. For example, environmental/community activists often possess political power, and large suppliers of unique materials and/or high switching costs have considerable economic and bargaining power. Firm strategic choices/decisions can result in higher levels of dependence on various stakeholders and thus result in a relationship that is strategically important to the firm. For example, if the company decides to outsource a critical component or pursue an aggressive growth strategy, then suppliers and financiers, respectively, become more important as levels of interdependence have been increased. Using this framework, stakeholders can be classified as having a high/low strategic importance (priority). Harrison and St. John (1996) then suggest the increased use of strategic partnering tactics for *high* priority or traditional stakeholder management techniques for *low* priority stakeholder entities. These methods will be discussed in the next section of the paper dealing with specific organizational responses to stakeholders.

**Step 5: Develop Organizational Responses**

Having just identified the firm's stakeholders, their claims, expectations, and goals and compared them with the organization's behavior and performance to reveal gaps and then prioritized stakeholders, we are now in a position to develop policies, strategies, and organizational responses to minimize those gaps and attend to those priorities. However, since the number of response strategies possible is some multiple of the number of stakeholders times the number of issues of concern times the number of novel ideas generated, it will be necessary to limit the discussion to several generic approaches that could be employed on multiple stakeholder types, issues, and industry situations.

One approach likely to have wide applicability is for an organization to use *direct communication* or *open dialogue* with their stakeholders (Freeman, 1984; Harrison and St. John, 1996; Polonsky, 1995). Business policies can be written for the firm that explicitly encourages employees to engage in open dialogue with external constituencies. For example, in British Petroleum's (BP) Business Policies (British Petroleum, PLC, 2002), they express the general policy expectation with respect to *relationships*:

. . . engage in dialogue and build relationships with may different groups to promote understanding and seek new ways of conducting our business to greater mutual advantage.

And at the business unit level, BP's business policy for *ethical conduct* specifically directs its leaders to:

. . . engage in open dialogue and consultation with local communities and their representatives, nongovernment organizations, and government at all levels to ensure that potential issues arising from our operations are identified and the risks addressed. (British Petroleum, PLC, 2002)

Thus, dialogue and engagement are recommended for *definitive* stakeholders (discussed earlier), for strategically important stakeholders where high levels of dependency exist, for dangerous stakeholders who threaten direct confrontation/sabotage, and for stakeholders who aren't clearly understood by the firm. Informal, open communication on key issues where potential conflicts or gaps are perceived to exist can allow each party to more clearly define their position or situation (i.e., how they are being impacted or what resource constraints they might face) leading to an increased understanding as well as the uncovering of areas of common ground. The *firm* is then in a position to suggest initiatives and goals toward improving their performance/behavior on an issue and the s*takeholder*, as a result of new knowledge and increased understanding of the firm's situation, is in a position to modify or refine their expectations. Both parties moving positions should substantially reduce the gap and avoid negative events like stakeholder protests or boycotts. However, if *conflicts* arise between the two parties that do not appear to be easily resolvable, then negotiation might be facilitated with the use of a mediator. Mediation is a nonadversarial approach to resolving disputes/conflicts with the aid of a neutral, third-party mediator who works with the disputants to facilitate cooperation and compromise (Lampe, 2001).

Another strategy for managing firm–stakeholder interactions increasingly being used by today's organizations is *collaboration* or *partnering* (Harrison and St. John, 1996; Savage et al., 1991). As discussed earlier, an organization's external environment has increasingly become more complex and uncertain and webs of interdependencies among stakeholders have been created. Pfeffer and Salancik (1978) suggest increasing mutual control over each other's activities as a typical solution to problems of uncertainty and interdependence. Harrison and St. John (1996, p. 53) present a wide array of stakeholder partnering techniques, including joint ventures, cooperative product development efforts with suppliers, and collective lobbying campaigns that are likely to bring the firm in closer alignment with its critical stakeholders. An additional consideration is that partners should follow the same high standards as the company they are partnering with. BP operates in 100 countries with numerous business partners and in its Business Policies (British Petroleum, PLC, 2002) manual, it is clear that BP fully expects its partners live up to their commitments:

. . . In joint operations, we will apply these policies where we are operators; where we are not, we will seek to influence our partners such that the joint operation adopts similar policies.

A similar typology of stakeholders developed by Savage et al. (1991) includes the “mixed blessing stakeholder,” which has both a high potential to threaten the firm as well as a high potential to cooperate with it. The strategy suggested as best for managing this type of stakeholder is to maximize cooperation and reduce the risk of opposition through collaboration, e.g., joint ventures and mergers. General Motors’ joint venture with Toyota in the Freeman, California, plant was an example of an early auto industry collaboration followed later by dozens of strategic alliances (e.g., Ford and Mazda, Renault and Nissan) among competing automobile companies. The overarching strategy here is to change the relationship with stakeholders to make them more dependent on the firm and therefore, more willing to cooperate with it. Earlier, Freeman (1984) had classified this type of stakeholder as a “swing” stakeholder and suggested that firms adopt a strategy that attempts to change or influence the rules of the game that govern firm–stakeholder influences. McDonald's partners with potentially adversarial environmental groups like *Environmental Defense* on issues like packaging, and consults with the *Natural Step* to help them achieve sustainability goals. They also collaborate in the UK with Oxford University and the Royal Society for the Prevention of Cruelty to Animals in support of the future of farming and animal welfare projects (McDonald's Corporate Press Release, 2002a).

Setting *performance goals* and *targets* with respect to the concerns and expectations of key stakeholders is emerging as an important means for managing firm–stakeholder relations. In a recent survey of hospital executives it was found that each of the 11 performance goals, which were designed to satisfy the expectations of key stakeholder groups, was considered “important” to them (Kumar and Subramanian, 1998). And as hospital stakeholders are increasingly demanding a voice in the planning process, some stakeholders have been invited to participate in the planning process itself, while other stakeholder viewpoints (determined during scanning) are also incorporated into the planning process (Daake and Anthony, 2000). Similarly, Imperial Chemical Industries (ICI) conducts stakeholder opinion leader research and sets global standards and continuous improvement targets with respect to safety, health, and the environment (SHE Report, 2002) that attempts to satisfy stakeholder expectations. Achieving environmental performance targets forms a partial basis for determining senior manager compensation, and business unit managers must submit an annual report (letter of assurance) to the board and ICI audit committee detailing compliance with SHE policies and standards.

Setting goals with respect to stakeholders’ interests sets the stage for devising *specific programs* and *tactics* to be employed in achieving those objectives. Freeman (1984) discusses a wide variety of strategic programs, such as advocacy advertising, negotiating with activist groups, lobbying for deregulation, labor–management cooperation, stockholder interviews, etc., all designed to either meet or change stakeholder expectations. Similarly, Harrison and St. John (1996) detail a large number of traditional stakeholder management tactics like customer service departments, long-term contracts with suppliers, competitive price cutting, government relations departments, community relations officers, financial donations to activist groups, etc. Of course, it is important that new programs and initiatives designed to help achieve goals directed at stakeholder expectations be *adequately funded*. Lorange (1983) argued early on that new strategic programs need to be treated separately from the operating budget so as to give clarity and urgency and thus assure that sufficient resources will be devoted to these programs. Freeman (1984) discusses the resource allocation process for funding stakeholder strategies in some detail, as well as the paramount need for top management support for these types of proposals. Many of the global firms cited here have a board member responsible for oversight of these types of activities.

With all of the above steps completed it is an opportune time to reflect on an organization's “statement of purpose” or “mission statement” and to assess how well stakeholder relations are reflected in it. Campbell (1997), in arguing the case in favor of stakeholders, says that a statement of purpose should include an explanation of the nature of the “deal” each stakeholder might expect from its relationship with the organization. David (1999) expresses a similar belief that key stakeholder concerns be covered in the “mission statement” of an organization. At this juncture, after dialogue with and strategy making toward various stakeholders, these statements should be *revised* to include the organization's current position on various stakeholder issues. As discussed earlier, Shell specifies its responsibilities to various constituents in its set of nine general business principles.

**Step 6: Monitoring and Control**

Stakeholder positions on issues are likely to change, sometimes dramatically, over time calling for continuous monitoring of stakeholder expectations lest the organization could be caught off-guard or be pursuing stakeholder strategies that are no longer relevant. From the firm's perspective, stakeholder programs need to be constantly evaluated and monitored to assure that progress toward goals is actually being made. The strategic control process (Preble, 1992) is ideally suited for incorporating this task. Strategic control monitors progress on strategies along the way as they are being implemented, not just at the end of a budget or planning cycle. This process checks if programs are on track and if strategies are still relevant, or if the assumptions upon which the strategies are based have changed, calling for new strategies/programs to be devised. Social and environmental audits (discussed earlier) should also be employed as part of the monitoring and control process. In 2002, McDonald's issued its first *Worldwide Social Responsibility Report* focused on four broad categories: community, environment, people, and marketplace. Going beyond economic indicators, the 46-page report details the goals, performance, and progress of McDonald's to date in these key areas (McDonald's Worldwide Social Responsibility Report, 2002b).