PART ONE

Business in Society

CHAPTER ONE

The Corporation and Its Stakeholders

Business corporations have complex relationships with many individuals and organizations in society. The term *stakeholder* refers to all those that affect, or are affected by, the actions of the firm. An important part of management's role is to identify a firm's relevant stakeholders and understand the nature of their interests, power, and alliances with one another. Building positive and mutually beneficial relationships across organizational boundaries can help enhance a company's reputation and address critical social and ethical challenges. In a world of fast-paced globalization, shifting public expectations and government policies, growing ecological concerns, and new technologies, managers face the difficult challenge of achieving economic results while simultaneously creating value for all of their diverse stakeholders.

This Chapter Focuses on These Key Learning Objectives:

- Understanding the relationship between business and society and the ways in which business and society are part of an interactive system.
- Considering the purpose of the modern corporation.
- Knowing what a stakeholder is and who a corporation's market and nonmarket and internal and external stakeholders are.
- Conducting a stakeholder analysis and understanding the basis of stakeholder interests and power.
- Recognizing the diverse ways in which modern corporations organize internally to interact with various stakeholders.
- Analyzing the forces of change that continually reshape the business and society relationship.

Walmart has been called "a template for 21st century capitalism." In each period of history, because of its size and potential impact on many groups in society, a single company often seems to best exemplify the management systems, technology, and social relationships of its era. In 1990, this company was U.S. Steel. In 1950, it was General Motors. Now, in the 2010s, it is Walmart.[1]

In 2012, Walmart was the largest private employer in the world, with 2.2 million employees worldwide. The company operated more than 10,000 facilities in 28 countries and had annual sales of $405 billion. The retailer was enormously popular with customers, drawing them in with its great variety of products under one roof and "save money, live better" slogan; 200 million customers worldwide shopped there every week. Economists estimated that Walmart had directly through its own actions and indirectly through its impact on its supply chain saved American shoppers $287 billion annually, about $957 for every person in the United States.[2] Shareholders who invested early were richly rewarded; the share price rose from 5 cents (split adjusted) when the company went public in 1970 to around $69 a share in 2012, near its all-time high.[3] Walmart was a major customer for 61,000 suppliers worldwide, ranging from huge multinationals to tiny one-person operations.

Yet, Walmart had become a lightning rod for criticism from many quarters, charged with corruption; driving down wages, benefits, and working conditions; and hurting local communities. Consider that:

- In 2012, the company confronted shocking charges that it had conducted a "campaign of bribery" to facilitate its rapid growth in Mexico. According to an investigation by *The New York Times,* Walmart had made $24 million in payments to government officials to clear the way for hundreds of new stores in what became the company's most important foreign subidiary, in probable violation of both U.S. and Mexican law.[4]
- In 2011, Walmart announced that it would eliminate health insurance for part-timers working less than 24 hours a week. Other employees faced an increase in health care premiums of more than 40 percent, on top of deductibles that sometimes exceeded 20 percent of their annual pay.[5] Three years earlier, the company had settled a lawsuit, agreeing to pay at least $352 million, for violations of labor law. The retailer had allegedly forced employees to work off the clock, without pay.
- In 2012, local activists organized to block construction of a Walmart neighborhood market in Los Angeles's Chinatown. It was the latest of many incidents in which local communities resisted the arrival of the retail giant, saying it would hurt small businesses.[6] Economists studying Walmart's impact in Chicago, for example, found that about one quarter of neighborhood retailers near a new Walmart had gone out of business, causing a loss of 300 jobs.[7]

Lee Scott, then the company's CEO, commented in an interview with *BusinessWeek* in 2005, "We always believed that if we sat here in Bentonville [the company's headquarters

[1] Nelson Lichtenstein, "Wal-Mart: A Template for Twenty-First Century Capitalism," in *Wal-Mart: The Face of Twenty-First Century Capitalism,* ed. Nelson Lichtenstein (New York: The New Press, 2006), pp. 3–30.

[2] Global Insight, "The Price Impact of Wal-Mart: An Update through 2006," September 4, 2007.

[3] "Wal-Mart Stock Near All-Time High," *The Wall Street Journal,* June 28, 2012.

[4] "Wal-Mart Hushed Up a Vast Mexican Bribery Case," *The New York Times,* April 21, 2012.

[5] "Wal-Mart Cuts Some Health Care Benefits," *The New York Times*, October 20, 2011.

[6] "Chinatown Walmart Opponents Plan 10,000-Strong March," *NBC Southern California,* at *www.nbclosangeles.com.*

[7] Julie Davis et al., "The Impact of an Urban Wal-Mart Store on Area Businesses: An Evaluation of One Chicago Neighborhood's Experience," Center for Urban Research and Learning, Loyola University Chicago, December 2009.

in Arkansas] and took care of our customers and took care of associates that the world itself would leave us alone." That, he acknowledged, was no longer the case. "We have to continue to evolve in how we operate and how we interface with society," he said.[8] In an effort to shore up its reputation, the company offered grants to small businesses, donated to wildlife habitat restoration, and announced a plan to lower the salt, fat, and sugar in many of its packaged foods.[9] It also pursued ambitious environmental goals to reduce waste, use more renewable energy, and sell more sustainable products, and began reporting to the public on its progress.[10] "Reputation is very important to Wal-Mart," said a historian who had studied the company. "They put a lot of money into building it."[11]

Walmart's experience illustrates, on a particularly large scale, the challenges of managing successfully in a complex global network of stakeholders. The company's actions affected not only itself, but also many other people, groups, and organizations in society. Customers, suppliers, employees, stockholders, creditors, business partners, governments, and local communities all had a stake in Walmart's decisions. Walmart had to learn just how difficult it could be to simultaneously satisfy multiple stakeholders with diverse and, in some respects, contradictory interests.

Every modern company, whether small or large, is part of a vast global business system. Whether a firm has 50 employees or 50,000—or, like Walmart, more than 2 million—its links to customers, suppliers, employees, and communities are certain to be numerous, diverse, and vital to its success. This is why the relationship between business and society is important to understand for both citizens and managers.

Business and Society

Business today is arguably the most dominant institution in the world. The term *business* refers here to any organization that is engaged in making a product or providing a service for a profit. Consider that in the United States today there are 6 million businesses, according to government estimates, and in the world as a whole, there are uncounted millions more. Of course, these businesses vary greatly in size and impact. They range from a woman who helps support her family by selling handmade tortillas by the side of the road in Mexico City for a few pesos, to ExxonMobil, a huge corporation that employs 83,600 workers and earns annual revenues approaching $500 billion in 200 nations worldwide.

Society, in its broadest sense, refers to human beings and to the social structures they collectively create. In a more specific sense, the term is used to refer to segments of humankind, such as members of a particular community, nation, or interest group. As a set of organizations created by humans, business is clearly a part of society. At the same time, it is also a distinct entity, separated from the rest of society by clear boundaries. Business is engaged in ongoing exchanges with its external environment across these dividing lines. For example, businesses recruit workers, buy supplies, and borrow money; they also sell products, donate time, and pay taxes. This book is broadly concerned with the relationship between business and society. A simple diagram of the relationship between the two appears in Figure 1.1.

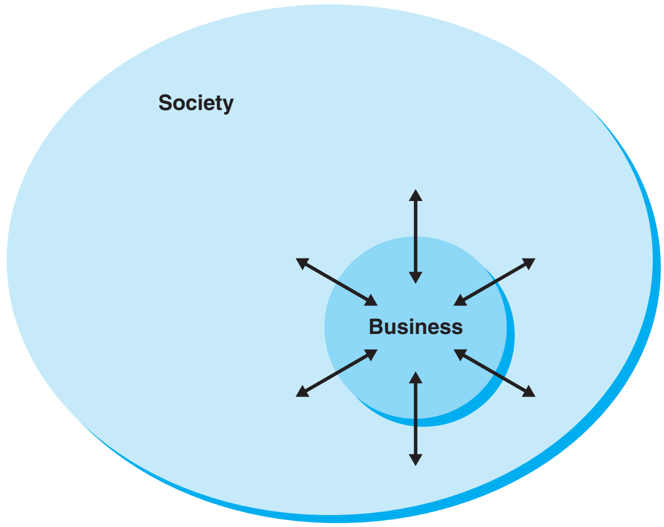
[8] "Can Wal-Mart Fit into a White Hat?" *BusinessWeek,* October 3, 2005; and extended interview with Lee Scott available online at *www.businessweek.com.*

[9] "Wal-Mart Stores," November 15, 2011, at *www.nytimes.com.*

[10] "2011 Global Responsibility Report," *www.walmartstores.com/sustainability.*

[11] "Wal-Mart's Good-Citizen Efforts Face a Test," *The New York Times,* April 30, 2012.

FIGURE 1.1
Business and Society: An Interactive System



As the Walmart example that opened this chapter illustrates, business and society are highly interdependent. Business activities impact other activities in society, and actions by various social actors and governments continuously affect business. To manage these interdependencies, managers need an understanding of their company's key relationships and how the social and economic system of which they are a part affects, and is affected by, their decisions.

A Systems Perspective

General systems theory, first introduced in the 1940s, argues that all organisms are open to, and interact with, their external environments. Although most organisms have clear boundaries, they cannot be understood in isolation, but only in relationship to their surroundings. This simple but powerful idea can be applied to many disciplines. For example, in botany, the growth of a plant cannot be explained without reference to soil, light, oxygen, moisture, and other characteristics of its environment. As applied to management theory, the systems concept implies that business firms (social organisms) are embedded in a broader social structure (external environment) with which they constantly interact. Corporations have ongoing boundary exchanges with customers, governments, competitors, the media, communities, and many other individuals and groups. Just as good soil, water, and light help a plant grow, positive interactions with society benefit a business firm.

Like biological organisms, moreover, businesses must adapt to changes in the environment. Plants growing in low-moisture environments must develop survival strategies, like the cactus that evolves to store water in its leaves. Similarly, a long-distance telephone company in a newly deregulated market must learn to compete by changing the products and services it offers. The key to business survival is often this ability to adapt effectively to changing conditions. In business, systems theory provides a powerful tool to help managers conceptualize the relationship between their companies and their external environments.

Systems theory helps us understand how business and society, taken together, form an **interactive social system**. Each needs the other, and each influences the other. They are entwined so completely that any action taken by one will surely affect the other. They are both separate and connected. Business is part of society, and society penetrates far and often into business decisions. In a world where global communication is rapidly expanding, the connections are closer than ever before. Throughout this book we discuss examples of organizations and people that are grappling with the challenges of, and helping to shape, business–society relationships.

The Stakeholder Theory of the Firm

What is the purpose of the modern corporation? To whom, or what, should the firm be responsible?[12] No question is more central to the relationship between business and society.

In the **ownership theory of the firm** (sometimes also called property or finance theory), the firm is seen as the property of its owners. The purpose of the firm is to maximize its long-term market value, that is, to make the most money it can for shareholders who own stock in the company. Managers and boards of directors are agents of shareholders and have no obligations to others, other than those directly specified by law. In this view, owners' interests are paramount and take precedence over the interests of others.

A contrasting view, called the **stakeholder theory of the firm**, argues that corporations serve a broad public purpose: to create value for society. All companies must make a profit for their owners; indeed, if they did not, they would not long survive. However, corporations create many other kinds of value as well, such as professional development for their employees and innovative new products for their customers. In this view, corporations have multiple obligations, and all stakeholders' interests must be taken into account. This approach has been expressed well by the pharmaceutical company Novartis, which states in its code of conduct that it "places a premium on dealing fairly with employees, commercial partners, government authorities, and the public. Success in its business ventures depends upon maintaining the trust of these essential stakeholders."[13]

Supporters of the stakeholder theory of the firm make three core arguments for their position: *descriptive, instrumental,* and *normative.*[14]

The *descriptive argument* says that the stakeholder view is simply a more realistic description of how companies really work. Managers have to pay keen attention, of course, to their quarterly and annual financial performance. Keeping Wall Street satisfied by managing for growth—thereby attracting more investors and increasing the stock price—is a core part of any top manager's job. But the job of management is much more complex than this. In order to produce consistent results, managers have to be concerned with producing high-quality and innovative products and services for their customers, attracting and retaining talented employees, and complying with a plethora of complex government regulations. As a practical matter, managers direct their energies toward all stakeholders, not just owners.

The *instrumental argument* says that stakeholder management is more effective as a corporate strategy. A wide range of studies have shown that companies that behave responsibly toward multiple stakeholder groups perform better financially, over the long run, than those that do not. (This empirical evidence is further explored in Chapters 3 and 4.) These findings make sense, because good relationships with stakeholders are themselves a source

[12] One summary of contrasting theories of the purpose of the firm appears in Margaret M. Blair, "Whose Interests Should Corporations Serve?" in Margaret M. Blair and Bruce K. MacLaury, *Ownership and Control: Rethinking Corporate Governance for the Twenty-First Century* (Washington, DC: Brookings Institution, 1995), ch. 6, pp. 202–34. More recently, these questions have been taken up in James E. Post, Lee E. Preston, and Sybille Sachs, *Redefining the Corporation: Stakeholder Management and Organizational Wealth* (Palo Alto, CA: Stanford University Press, 2002).

[13] Novartis Corporation Code of Conduct, online at *www.novartis.com.*

[14] The descriptive, instrumental, and normative arguments are summarized in Thomas Donaldson and Lee E. Preston, "The Stakeholder Theory of the Corporation: Concepts, Evidence and Implications," *Academy of Management Review* 20, no. 1 (1995), pp. 65–71. See also, Post, Preston, and Sachs, *Redefining the Corporation,* ch. 1.

of value for the firm. Attention to stakeholders' rights and concerns can help produce motivated employees, satisfied customers, and supportive communities, all good for the company's bottom line.

The *normative argument* says that stakeholder management is simply the right thing to do. Corporations have great power and control vast resources; these privileges carry with them a duty toward all those affected by a corporation's actions. Moreover, all stakeholders, not just owners, contribute something of value to the corporation. A skilled engineer at Microsoft who applies his or her creativity to solving a difficult programming problem has made a kind of investment in the company, even if it is not a monetary investment. Any individual or group who makes a contribution, or takes a risk, has a moral right to some claim on the corporation's rewards.[15]

A basis for both the ownership and stakeholder theories of the firm exists in law. The legal term *fiduciary* means a person who exercises power on behalf of another, that is, who acts as the other's agent. In U.S. law, managers are considered fiduciaries of the owners of the firm (its stockholders) and have an obligation to run the business in their interest. These legal concepts are clearly consistent with the ownership theory of the firm. However, other laws and court cases have given managers broad latitude in the exercise of their fiduciary duties. In the United States (where corporations are chartered not by the federal government but by the states), most states have passed laws that permit managers to take into consideration a wide range of other stakeholders' interests, including those of employees, customers, creditors, suppliers, and communities. In addition, many federal laws extend specific protections to various groups of stakeholders, such as those that prohibit discrimination against employees or grant consumers the right to sue if harmed by a product.

In other nations, the legal rights of nonowner stakeholders are often more fully developed than in the United States. For example, a number of European countries—including Germany, Norway, Austria, Denmark, Finland, and Sweden—require public companies to include employee members on their boards of directors, so that their interests will be explicitly represented. Under the European Union's so-called harmonization statutes, managers are specifically permitted to take into account the interests of customers, employees, creditors, and others.

In short, while the law requires managers to act on behalf of stockholders, it also gives them wide discretion—and in some instances requires them—to manage on behalf of the full range of stakeholder groups. The next section provides a more formal definition and an expanded discussion of the stakeholder concept.

The Stakeholder Concept

The term **stakeholder** refers to persons and groups that affect, or are affected by, an organization's decisions, policies, and operations.[16] The word *stake,* in this context, means an interest in—or claim on—a business enterprise. Those with a stake in the firm's actions

[15] Another formulation of this point has been offered by Robert Phillips, who argues for a principle of stakeholder fairness. This states that "when people are engaged in a cooperative effort and the benefits of this cooperative effort are accepted, obligations are created on the part of the group accepting the benefit" [i.e., the business firm]. Robert Phillips, *Stakeholder Theory and Organizational Ethics* (San Francisco: Berrett-Koehler, 2003), p. 9 and ch. 5.

[16] The term *stakeholder* was first introduced in 1963 but was not widely used in the management literature until the publication of R. Edward Freeman's *Strategic Management: A Stakeholder Approach* (Marshfield, MA: Pitman, 1984). For more recent summaries of the stakeholder theory literature, see Thomas Donaldson and Lee E. Preston, "The Stakeholder Theory of the Corporation: Concepts, Evidence, Implications," *Academy of Management Review*, January 1995, pp. 71–83; Max B. E. Clarkson, ed., *The Corporation and Its Stakeholders: Classic and Contemporary Readings* (Toronto: University of Toronto Press, 1998); and Abe J. Zakhem, Daniel E. Palmer, and Mary Lyn Stoll, *Stakeholder Theory: Essential Readings in Ethical Leadership and Management* (Amherst, NY: Prometheus Books, 2008).

include such diverse groups as customers, employees, stockholders, the media, governments, professional and trade associations, social and environmental activists, and nongovernmental organizations. The term *stakeholder* is not the same as *stockholder*, although the words sound similar. Stockholders—individuals or organizations that own shares of a company's stock—are one of several kinds of stakeholders.

Business organizations are embedded in networks involving many participants. Each of these participants has a relationship with the firm, based on ongoing interactions. Each of them shares, to some degree, in both the risks and rewards of the firm's activities. And each has some kind of claim on the firm's resources and attention, based on law, moral right, or both. The number of these stakeholders and the variety of their interests can be large, making a company's decisions very complex, as the Walmart example illustrates.

Managers make good decisions when they pay attention to the effects of their decisions on stakeholders, as well as stakeholders' effects on the company. On the positive side, strong relationships between a corporation and its stakeholders are an asset that adds value. On the negative side, some companies disregard stakeholders' interests, either out of the belief that the stakeholder is wrong or out of the misguided notion that an unhappy customer, employee, or regulator does not matter. Such attitudes often prove costly to the company involved. Today, for example, companies know that they cannot locate a factory or store in a community that strongly objects. They also know that making a product that is perceived as unsafe invites lawsuits and jeopardizes market share.

Different Kinds of Stakeholders

Business interacts with society in many diverse ways, and a company's relationships with various stakeholders differ.

Market stakeholders are those that engage in economic transactions with the company as it carries out its purpose of providing society with goods and services. Each relationship between a business and one of its market stakeholders is based on a unique transaction, or two-way exchange. Stockholders invest in the firm and in return receive the potential for dividends and capital gains. Creditors loan money and collect payments of interest and principal. Employees contribute their skills and knowledge in exchange for wages, benefits, and the opportunity for personal satisfaction and professional development. In return for payment, suppliers provide raw materials, energy, services, and other inputs; and wholesalers, distributors, and retailers engage in market transactions with the firm as they help move the product from plant to sales outlets to customers. All businesses need customers who are willing to buy their products or services.

The puzzling question of whether or not managers should be classified as stakeholders along with other employees is discussed in Exhibit 1.A.

Nonmarket stakeholders, by contrast, are people and groups who—although they do not engage in direct economic exchange with the firm—are nonetheless affected by or can affect its actions. Nonmarket stakeholders include the community, various levels of government, nongovernmental organizations, the media, business support groups, competitors, and the general public. Nonmarket stakeholders are not necessarily less important than others, simply because they do not engage in direct economic exchange with a business. On the contrary, interactions with such groups can be critical to a firm's success or failure, as shown in the following example.

In 2001, a company called Energy Management Inc. (EMI) announced a plan to build a wind farm about six miles off the shore of Cape Cod, Massachusetts, to supply clean, renewable power to New England customers. The project, called Cape Wind, immediately generated intense opposition from socially prominent residents

Exhibit 1.A Are Managers Stakeholders?

Are managers, especially top executives, stakeholders? This has been a contentious issue in stakeholder theory.

On one hand, the answer clearly is "yes." Like other stakeholders, managers are impacted by the firm's decisions. As employees of the firm, managers receive compensation—often very generous compensation, as shown in Chapter 14. Their managerial roles confer opportunities for professional advancement, social status, and power over others. Managers benefit from the company's success and are hurt by its failure. For these reasons, they might properly be classified as employees.

On the other hand, top executives are agents of the firm and are responsible for acting on its behalf. In the stakeholder theory of the firm, their role is to integrate stakeholder interests, rather than to promote their own more narrow, selfish goals. For these reasons, they might properly be classified as representatives of the firm itself, rather than as one of its stakeholders.

Management theory has long recognized that these two roles of managers potentially conflict. The main job of executives is to act for the company, but all too often they act primarily for themselves. Consider, for example, the many top executives of Lehman Brothers, MF Global, and Merrill Lynch, who enriched themselves personally at the expense of shareholders, employees, customers, and other stakeholders. The challenge of persuading top managers to act in the firm's best interest is further discussed in Chapter 14.

> of Cape Cod and nearby islands, who were concerned that its 130 wind turbines would spoil the view and get in the way of boats. Opponents of the project were able to block its progress for more than a decade. Finally, in 2011, Cape Wind secured its final permits and made plans to build the wind farm.[17]

In this instance, the community was able to block the company's plans for more than a decade, even though it did not have a market relationship with it.

Theorists also distinguish between **internal stakeholders** and **external stakeholders**. Internal stakeholders are those, such as employees and managers, who are employed by the firm. They are "inside" the firm, in the sense that they contribute their effort and skill, usually at a company worksite. External stakeholders, by contrast, are those who—although they may have important transactions with the firm—are not directly employed by it. Figure 1.2 shows the market and nonmarket, and internal and external, stakeholders of business. (Of note, firms have no internal, nonmarket stakeholders.)

FIGURE 1.2
The Stakeholders of Business

	Market Stakeholders	**Nonmarket Stakeholders**
Internal Stakeholders	Employees Managers	
External Stakeholders	Stockholders Customers Creditors Suppliers Wholesalers and Retailers	Governments Communities Nongovernmental Organizations Business Support Groups Media Competitors

[17] The website of the project is at *www.capewind.org*. The story of the opposition to Cape Wind is told in Robert Whitcomb and Wendy Williams, *Cape Wind: Money, Celebrity, Energy, Class, Politics, and the Battle for Our Energy Future* (New York: PublicAffairs, 2008).

The classification of government as a nonmarket stakeholder has been controversial in stakeholder theory. Most theorists say that government is a nonmarket stakeholder (as does this book) because it does not normally conduct any direct market exchanges (buying and selling) with business. However, money often flows from business to government in the form of taxes and fees, and sometimes from government to business in the form of subsidies or incentives. Moreover, some businesses—defense contractors for example—*do* sell directly to the government and receive payment for goods and services rendered. For this reason, a few theorists have called government a market stakeholder of business. And, in a few cases, the government may take a direct ownership stake in a company—as the U.S. government did after the financial crisis of 2008–09 when it invested in several banks and auto companies, becoming a shareholder of these firms. Government also has special influence over business because of its ability to charter and tax corporations, as well as make laws that regulate their activities. The unique relationship between government and business is discussed throughout this book.

Other stakeholders also have some market and some nonmarket characteristics. For example, the media is normally considered a nonmarket stakeholder. However, business buys advertising time on television and radio and in newspapers—a market transaction. Similarly, companies may pay dues to support groups, such as the Chamber of Commerce. Communities are a nonmarket stakeholder, but receive taxes, philanthropic contributions, and other monetary benefits from businesses. These subtleties are further explored in later chapters.

Modern stakeholder theory recognizes that most business firms are embedded in a complex web of stakeholders, many of which have independent relationships with each other.[18] In this view, a business firm and its stakeholders are best visualized as an interconnected network. Imagine, for example, an electronics company, based in the United States, that produces smartphones, tablets, and music players. The firm employs people to design, engineer, and market its devices to customers in many countries. Shares in the company are owned by investors around the world, including many of its own employees and managers. Production is carried out by suppliers in Asia. Banks provide credit to the company, as well as to other companies. Competing firms sell their products to some of the same customers and also contract production to some of the same Asian suppliers. Nongovernmental organizations may seek to lobby the government concerning the firm's practices and may count some employees among their members. A visual representation of this company and its stakeholders is shown in Figure 1.3.

As Figure 1.3 suggests, some individuals or groups may play multiple stakeholder roles. Some theorists use the term *role sets* to refer to this phenomenon. For example, one person may work at a company but also live in the surrounding community, own shares of company stock in his or her 401(k) retirement account, and even purchase the company's products from time to time. This person has several stakes in a company's actions.

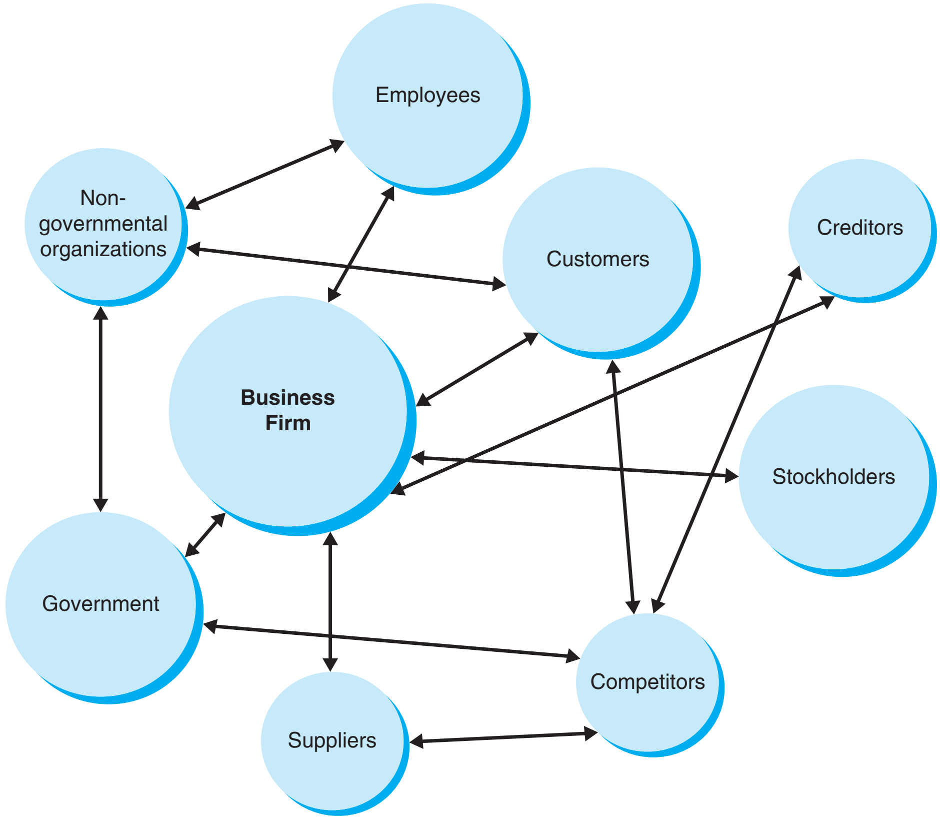
Later sections of this book (especially Chapters 14 through 19) will discuss in more detail the relationship between business and its various stakeholders.

Stakeholder Analysis

An important part of the modern manager's job is to identify relevant stakeholders and to understand both their interests and the power they may have to assert these interests. This process is called **stakeholder analysis**. The organization from whose perspective the

[18] Timothy J. Rowley, "Moving Beyond Dyadic Ties: A Network Theory of Stakeholder Influence," *Academy of Management Review* 22, no. 4 (October 1997).

FIGURE 1.3
A Firm and Its Stakeholders



analysis is conducted is called the **focal organization**. Stakeholder analysis asks four key questions, as follows.

Who are the relevant stakeholders?

The first question requires management to identify and map the relevant stakeholders. Figure 1.2 provides a guide. However, not all stakeholders listed will be relevant in every management situation. For example, a privately held firm will not have stockholders. Some businesses sell directly to customers online and therefore will not have retailers. In other situations, a firm may have a stakeholder—say, a creditor that has loaned money—but this group is not relevant to a particular decision or action that management must take.

But stakeholder analysis involves more than simply *identifying* stakeholders; it also involves understanding the nature of their interests, power, legitimacy, and links with one another.

Stakeholder Interests

What are the interests of each stakeholder?

Each stakeholder has a unique relationship to the organization, and managers must respond accordingly. **Stakeholder interests** are, essentially, the nature of each group's stake. What are their concerns, and what do they want from their relationship with the firm?[19]

[19] A full discussion of the interests of stakeholders may be found in R. Edward Freeman, *Ethical Theory and Business* (Englewood Cliffs, NJ: Prentice Hall, 1994).

Stockholders, for their part, have an ownership interest in the firm. In exchange for their investment, stockholders expect to receive dividends and, over time, capital appreciation. The economic health of the corporation affects these people financially; their personal wealth—and often, their retirement security—is at stake. They may also seek social objectives through their choice of investments. Customers, for their part, are most interested in gaining fair value and quality in exchange for the purchase price of goods and services. Suppliers, likewise, wish to receive fair compensation for products and services they provide. Employees, in exchange for their time and effort, want to receive fair compensation and an opportunity to develop their job skills. Governments, public interest groups, and local communities have another sort of relationship with the company. In general, their stake is broader than the financial stake of owners, customers, and suppliers. They may wish to protect the environment, assure human rights, or advance other broad social interests. Managers need to understand these complex and often intersecting stakeholder interests.

Stakeholder Power

What is the power of each stakeholder?

Stakeholder power means the ability to use resources to make an event happen or to secure a desired outcome. Stakeholders have five different kinds of power: *voting power, economic power, political power, legal power,* and *informational power.*

Voting power means that the stakeholder has a legitimate right to cast a vote. Stockholders typically have voting power proportionate to the percentage of the company's stock they own. Stockholders typically have an opportunity to vote on such major decisions as mergers and acquisitions, the composition of the board of directors, and other issues that may come before the annual meeting. (Stockholder voting power should be distinguished from the voting power exercised by citizens, which is discussed below.)

For example, Starboard Value LP, a New York–based hedge fund, used its voting power as a shareholder to force change in a company it had invested in. In 2011, Starboard bought more than 5 percent of the shares of the hair care company Regis Corporation. Starboard asserted that Regis, which owned or operated more than 12,000 hair salons under the Supercuts, Cost Cutters, and Hair Club for Men and Women brands, was "bloated with costs and lacked operational focus." The hedge fund reached out to other shareholders and won majority support in a contentious campaign to replace three members of the board of directors with its own nominees. Regis subsequently replaced several top executives and set out to cut expenses.[20]

Customers, suppliers, and retailers have *economic power* with the company. Suppliers can withhold supplies or refuse to fill orders if a company fails to meet its contractual responsibilities. Customers may refuse to buy a company's products or services if the company acts improperly. Customers can boycott products if they believe the goods are too expensive, poorly made, or unsafe. Employees, for their part, can refuse to work under certain conditions, a form of economic power known as a strike or slowdown. Economic power often depends on how well organized a stakeholder group is. For example, workers who are organized into unions usually have more economic power than do workers who try to negotiate individually with their employers.

Governments exercise *political power* through legislation, regulations, or lawsuits. While government agencies act directly, other stakeholders use their political power

[20] "Regis Investor Wins 3 Board Seats in Proxy Fight," *Twin Cities Business,* October 27, 2011; "Regis Ousts COO Following Board Shake-Up," *Twin Cities Business,* January 24, 2012, at *www.tcbmag.com;* and "Is Regis About to Bring Down the Hammer?" [Minnesota] *Star Tribune,* January 25, 2012.

indirectly by urging government to use its powers by passing new laws or enacting regulations. Citizens may also vote for candidates that support their views with respect to government laws and regulations affecting business, a different kind of voting power than the one discussed above. Stakeholders may also exercise political power directly, as when social, environmental, or community activists organize to protest a particular corporate action.

Stakeholders have *legal power* when they bring suit against a company for damages, based on harm caused by the firm; for instance, lawsuits brought by customers for damages caused by defective products, brought by employees for damages caused by workplace injury, or brought by environmentalists for damages caused by pollution or harm to species or habitat. After the mortgage lender Countrywide collapsed, many institutional shareholders, such as state pension funds, sued Bank of America (which had acquired Countrywide) to recoup some of their losses.

Finally, stakeholders have *informational power* when they have access to valuable data, facts, or details. The disclosure (or nondisclosure) of information can be used to persuade, mobilize, or threaten others. With the explosive growth of technologies that facilitate the sharing of information, this kind of stakeholder power has become increasingly important.

> Consumers' ability to use social networks to share information about businesses they like—and do not like—has given them power they did not previously have. For example, Yelp Inc. operates a website where people can search for local businesses, post reviews, and read others' comments. Since its launch in 2004, Yelp has attracted more than 50 million users. Its reviewers collectively have gained considerable influence. Restaurants, cultural venues, hair salons, and other establishments can attract customers with five-star ratings and "People Love Us on Yelp" stickers in their windows—but, by the same token, can be badly hurt when reviews turn nasty. A recent study in the *Harvard Business Review* reported that a one-star increase in an independent restaurant's Yelp rating led to a 5 to 9 percent increase in revenue. Some businesses have complained that Yelp reviewers have too much power. "My business just died," said the sole proprietor of a housecleaning business. "Once they locked me into the 3.5 stars, I wasn't getting any calls."[21]

Activists often try to use all of these kinds of power when they want to change a company's policy. For example, human rights activists wanted to bring pressure on Unocal Corporation to change its practices in Burma, where it had entered into a joint venture with the government to build a gas pipeline. Critics charged that many human rights violations occurred during this project, including forced labor and relocations. In an effort to pressure Unocal to change its behavior, activists organized protests at stockholder meetings (*voting power*), called for boycotts of Unocal products (*economic power*), promoted local ordinances prohibiting cities from buying from Unocal (*political power*), brought a lawsuit for damages on behalf of Burmese villagers (*legal power*), and gathered information about government abuses by interviewing Burmese refugees and publishing the results online (*informational power*). These activists increased their chances of success by mobilizing many kinds of power. This combination of tactics eventually forced Unocal to pay compensation to people whose rights had been violated and to fund education and health care projects in the pipeline region.[22]

Exhibit 1.B provides a schematic summary of some of the main interests and powers of both market and nonmarket stakeholders.

Stakeholder Coalitions

An understanding of stakeholder interests and power enables managers to answer the final question of stakeholder analysis.

[21] "Is Yelp Fair to Businesses?" *PC World*, November 15, 2011.

[22] Further information about the campaign against Unocal is available at *www.earthrights.org/unocal*.

Exhibit 1.B

Stakeholders: Nature of Interest and Power

Stakeholder	Nature of Interest—Stakeholder Wishes To:	Nature of Power—Stakeholder Influences Company By:
Market Stakeholders		
Employees	■ Maintain stable employment in firm ■ Receive fair pay for work ■ Work in safe, comfortable environment	■ Union bargaining power ■ Work actions or strikes ■ Publicity
Stockholders	■ Receive a satisfactory return on investments (dividends) ■ Realize appreciation in stock value over time	■ Exercising voting rights based on share ownership ■ Exercising rights to inspect company books and records
Customers	■ Receive fair exchange: value and quality for money spent ■ Receive safe, reliable products	■ Purchasing goods from competitors ■ Boycotting companies whose products are unsatisfactory or whose policies are unacceptable
Suppliers	■ Receive regular orders for goods ■ Be paid promptly for supplies delivered	■ Refusing to meet orders if conditions of contract are breached ■ Supplying to competitors
Retailers Wholesalers	■ Receive quality goods in a timely fashion at reasonable Cost ■ Offer reliable products that consumers trust and value	■ Buying from other suppliers if terms of contract are unsatisfactory ■ Boycotting companies whose goods or policies are unsatisfactory
Creditors	■ Receive repayment of loans ■ Collect debts and interest	■ Calling in loans if payments are not made ■ Utilizing legal authorities to repossess or take over property if loan payments are severely delinquent

How are coalitions likely to form?

Not surprisingly, stakeholder interests often coincide. For example, consumers of fresh fruit and farmworkers who harvest that fruit in the field may have a shared interest in reducing the use of pesticides, because of possible adverse health effects from exposure to chemicals. When their interests are similar, stakeholders may form coalitions, temporary

Stakeholder	Nature of Interest—Stakeholder Wishes To:	Nature of Power—Stakeholder Influences Company By:
Nonmarket Stakeholders		
Communities	■ Employ local residents in the company ■ Ensure that the local environment is protected ■ Ensure that the local area is developed	■ Refusing to extend additional credit ■ Issuing or restricting operating licenses and permits ■ Lobbying government for regulation of the company's policies or methods of land use and waste disposal
Nongovernmental organizations	■ Monitor company actions and policies to ensure that they conform to legal and ethical standards, and that they protect the public's safety	■ Gaining broad public support through publicizing the issue ■ Lobbying government for regulation of the company
Media	■ Keep the public informed on all issues relevant to their health, well-being, and economic status ■ Monitor company actions	■ Publicizing events that affect the public, especially those that have negative effects
Business support groups (e.g., trade associations)	■ Provide research and information which will help the company or industry perform in a changing environment	■ Using its staff and resources to assist company in business endeavors and development efforts ■ Providing legal or "group" political support beyond that which an individual company can provide for itself
Governments	■ Promote economic development ■ Encourage social improvements ■ Raise revenues through taxes	■ Adopting regulations and laws ■ Issuing licenses and permits ■ Allowing or disallowing commercial activity
The general public	■ Protect social values ■ Minimize risks ■ Achieve prosperity for society	■ Supporting activists ■ Pressing government to act ■ Condemning or praising individual companies
Competitors	■ Compete fairly ■ Cooperate on industry-wide or community issues ■ Seek new customers	■ Pressing government for fair competition policies ■ Suing companies that compete unfairly

alliances to pursue a common interest. **Stakeholder coalitions** are not static. Groups that are highly involved with a company today may be less involved tomorrow. Issues that are controversial at one time may be uncontroversial later; stakeholders that are dependent on an organization at one time may be less so at another. To make matters more complicated, the process of shifting coalitions does not occur uniformly in all parts of a large corporation.

Stakeholders involved with one part of a large company often have little or nothing to do with other parts of the organization.

In recent years, coalitions of stakeholders have become increasingly international in scope. Communications technology has enabled like-minded people to come together quickly, even across political boundaries and many miles of separation. Smartphones, blogs, e-mail, faxes, and social networking sites have become powerful tools in the hands of groups that monitor how multinational businesses are operating in different locations around the world.

In 2000, the Mexican government cancelled plans for a salt plant in a remote area on the Pacific coast, after groups from around the world rallied to oppose it. The proposed plant was a joint venture of Mitsubishi (a multinational corporation based in Japan) and the Mexican government. Together, they wanted to create jobs, taxes, and revenue by mining naturally occurring salt deposits along the Baja California coast. Environmentalists attacked the venture on the grounds that it would hurt the gray whales that migrated every year to a nearby lagoon to give birth to their young. In the past, such objections would probably have attracted little attention. But critics were able to use the Internet and the media to mobilize over 50 organizations worldwide to threaten a boycott of Mitsubishi. One million people wrote the company, demanding that it "save the gray whale." Although Mitsubishi was convinced that the whales would continue to thrive near the salt works, it found its plans blocked at every turn.[23]

This example illustrates how international networks of activists, coupled with the media's interest in such business and society issues, make coalition development and issue activism an increasingly powerful strategic factor for companies. Nongovernmental organizations regularly meet to discuss problems such as global warming, human rights, and environmental issues, just as their business counterparts do. Today, stakeholder coalitions are numerous in every industry and important to every company.

Stakeholder Salience and Mapping

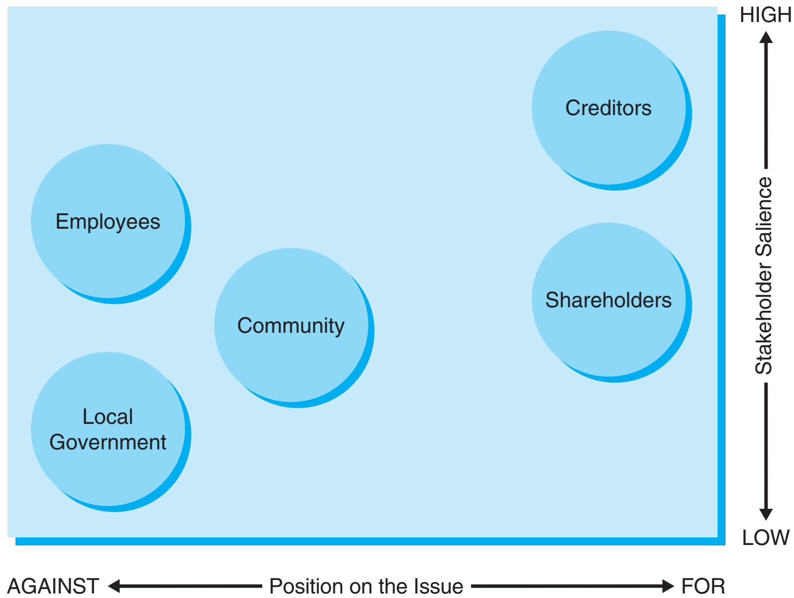
Some scholars have suggested that managers pay the most attention to stakeholders possessing greater **salience**. (Something is *salient* when it stands out from a background, is seen as important, or draws attention.) Stakeholders stand out to managers when they have power, legitimacy, and urgency. The previous section discussed various forms of stakeholder power. *Legitimacy* refers to the extent to which a stakeholder's actions are seen as proper or appropriate by the broader society. *Urgency* refers to the time-sensitivity of a stakeholder's claim, that is, the extent to which it demands immediate action. The more of these three attributes a stakeholder possesses, the greater the stakeholder's salience and the more likely that managers will notice and respond.[24]

Managers can use the salience concept to develop a **stakeholder map**, a graphical representation of the relationship of stakeholder salience to a particular issue. Figure 1.4 presents a simple example of a stakeholder map. The figure shows the position of various stakeholders on a hypothetical issue—whether or not a company should shut down an

[23] H. Richard Eisenbeis and Sue Hanks, "When Gray Whales Blush," case presented at the annual meeting of the North American Case Research Association, October 2002.

[24] Ronald K. Mitchell, Bradley R. Agle, and Donna J. Wood, "Toward a Theory of Stakeholder Identification and Salience: Defining the Principle of Who and What Really Counts," *Academy of Management Review* 22, no. 4 (1997), pp. 853–86.

FIGURE 1.4
Stakeholder Map of a Proposed Plant Closure

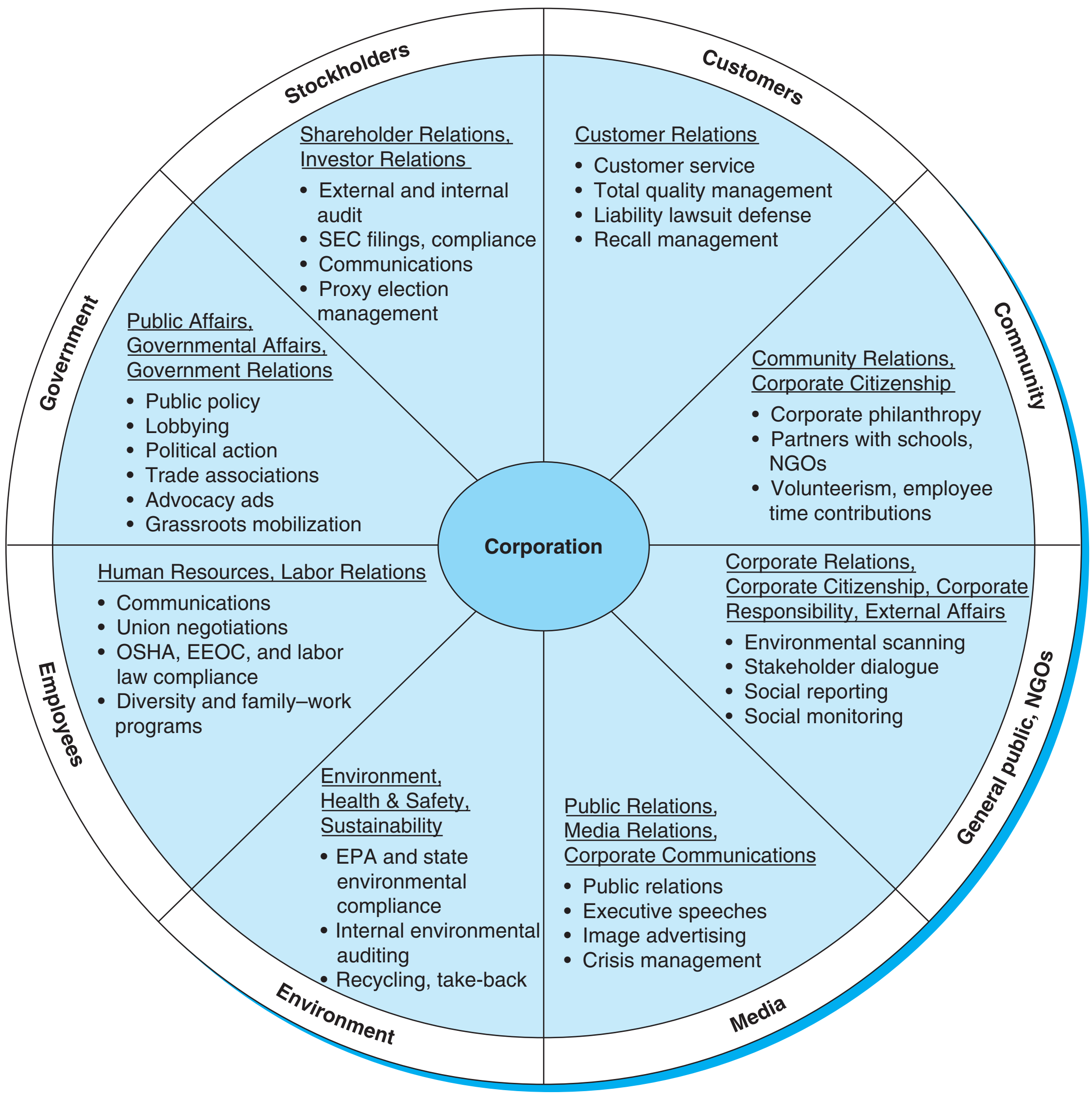


underperforming factory in a community. The horizontal axis represents each stakeholder's position on this issue—from "against" (the company should not shut the plant) to "for" (the company should shut the plant). The vertical axis represents the salience of the stakeholder, an overall measure of that stakeholder's power, legitimacy, and urgency. In this example, the company's creditors (banks) are pressuring the firm to close the plant. They have high salience, because they control the company's credit line and are urgently demanding action. Shareholders, who are powerful and legitimate (but not as urgent in their demands), also favor the closure. On the other side, employees urgently oppose shutting the plant, because their jobs are at stake, but they do not have as much power as the creditors and are therefore less salient. Local government officials and local businesses also wish the plant to remain open, but have lower salience than the other stakeholders involved.

A stakeholder map is a useful tool because it enables managers to see quickly how stakeholders feel about an issue and whether salient stakeholders tend to be in favor or opposed. It also helps managers see how stakeholder coalitions are likely to form and what outcomes are likely. In this example, company executives might conclude from the stakeholder map that those supporting the closure—creditors and shareholders—have the greatest salience. Although they are less salient, employees, local government officials, and the community all oppose the closure and may try to increase their salience by working together. Managers might conclude that the closure is likely, unless opponents organize an effective coaliton. This example is fairly simple; more complex stakeholder maps can represent network ties among stakeholders, the size of stakeholder groups, and the degree of consensus within stakeholder groups.[25]

[25] For two different approaches to stakeholder mapping, see David Saiia and Vananh Le, "Mapping Stakeholder Salience," presented at the International Association for Business and Society, June 2009; and Robert Boutilier, *Stakeholder Politics: Social Capital, Sustainable Development, and the Corporation* (Sheffield, UK: Greenleaf Publishing, 2009), chs. 6 and 7.

FIGURE 1.5 **The Corporation's Boundary-Spanning Departments**



The Corporation's Boundary-Spanning Departments

How do corporations organize internally to respond to and interact with stakeholders?

Boundary-spanning departments are departments, or offices, within an organization that reach across the dividing line that separates the company from groups and people in society. Building positive and mutually beneficial relationships across organizational boundaries is a growing part of management's role.

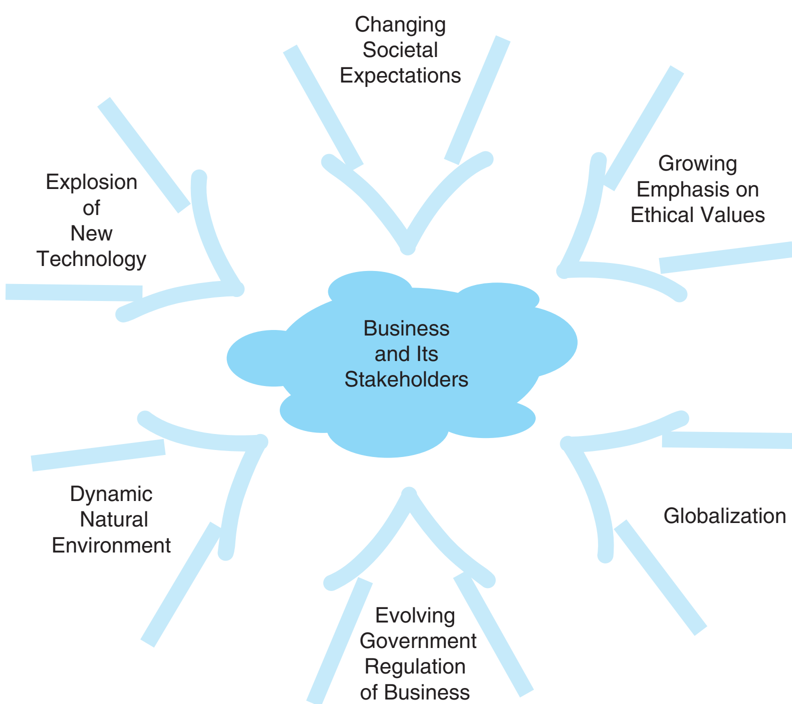
Figure 1.5 presents a list of the corporation's market and nonmarket stakeholders, alongside the corporate departments that typically have responsibility for engaging with them. As the figure suggests, the organization of the corporation's boundary-spanning functions is complex. For example, in many companies, departments of public affairs or government relations interact with elected officials and regulators. Departments of investor relations interact with stockholders; human resources with employees; customer relations with customers; and community relations with the community. Specialized departments of environment, health, and safety may deal with environmental compliance and worker health and safety, and public relations or corporate communications with the media. Many of these specific departments will be discussed in more detail in later chapters.

The Dynamic Environment of Business

A core argument of this book is that *the external environment of business is dynamic and ever changing*. Businesses and their stakeholders do not interact in a vacuum. On the contrary, most companies operate in a swirl of social, ethical, global, political, ecological, and technological change that produces both opportunities and threats. Figure 1.6 diagrams the six dynamic forces that powerfully shape the business and society relationship. Each of these forces is introduced briefly below and will be discussed in more detail later in this book.

Changing societal expectations. Everywhere around the world, society's expectations of business are changing. People increasingly expect business to be more responsible, believing companies should pay close attention to social issues and act as good citizens in society. New public issues constantly arise that require action. Increasingly, business is faced with the daunting task of balancing its social, legal, and economic obligations, seeking to meet its commitments to multiple stakeholders. Modern businesses are increasingly exploring opportunities to act as social entrepreneurs often by focusing on those at the bottom of the pyramid. These changes in society's expectations of business, and how managers have responded, are described in Chapters 2 and 3.

FIGURE 1.6
Forces That Shape the Business and Society Relationship



Growing emphasis on ethical reasoning and actions. The public also expects business to be ethical and wants corporate managers to apply ethical principles or values—in other words, guidelines about what is right and wrong, fair and unfair, and morally correct—when they make business decisions. Fair employment practices, concern for consumer safety, contribution to the welfare of the community, and human rights protection around the world have become more prominent and important. Business has created ethics programs to help ensure that employees are aware of these issues and act in accordance with ethical standards. The ethical challenges faced by business, both domestically and abroad—and business's response—are discussed in Chapters 4 and 5.

Globalization. We live in an increasingly integrated world economy, characterized by the unceasing movement of goods, services, and capital across national borders. Large transnational corporations do business in scores of countries. Products and services people buy every day in the United States or Germany may have come from Indonesia, Haiti, or Mexico. Today, economic forces truly play out on a global stage. A financial crisis on Wall Street can quickly impact economies around the world. Societal issues—such as the race to find a cure for HIV/AIDS, the movement for women's equality, or the demands of citizens everywhere for full access to the Internet—also cut across national boundaries. Environmental issues, such as ozone depletion and species extinction, affect all communities. Globalization challenges business to integrate their financial, social, and environmental performance. Chapters 6 and 7 address globalization and business firms' efforts to become better global citizens.

Evolving government regulations and business response. The role of government has changed dramatically in many nations in recent decades. Governments around the world have enacted a myriad of new policies that have profoundly constrained how business is allowed to operate. Government regulation of business periodically becomes tighter, then looser, much as a pendulum swings back and forth. Because of the dynamic nature of this force, business has developed various strategies to influence elected officials and government regulators at federal, state, and local levels. Business managers understand the opportunities that may arise from active participation in the political process. The changing role of government, its impact, and business's response are explored in Chapters 8 and 9.

Dynamic natural environment. All interactions between business and society occur within a finite natural ecosystem. Humans share a single planet, and many of our resources—oil, coal, and gas, for example—are nonrenewable. Once used, they are gone forever. Other resources, like clean water, timber, and fish, are renewable, but only if humans use them sustainably, not taking more than can be naturally replenished. Climate change now threatens all nations. The relentless demands of human society, in many arenas, have already exceeded the carrying capacity of the Earth's ecosystem. The state of the Earth's resources and changing attitudes about the natural environment powerfully impact the business–society relationship. These issues are explored in Chapters 10 and 11.

Explosion of new technology and innovation. Technology is one of the most dramatic and powerful forces affecting business and society. New technological innovations harness the human imagination to create new machines, processes, and software that address the needs, problems, and concerns of modern society. In recent years, the pace of technological change has increased enormously. From genetically modified foods to social networking via the Internet, from nanotechnology to wireless communications, change keeps coming. The extent and pace of technological innovation pose massive challenges for business, and sometimes government, as they seek to manage various privacy, security, and intellectual property issues embedded in this dynamic force. As discussed in Chapters 12 and 13, new technologies often force managers and organizations to examine seriously the ethical implications of their use.

Creating Value in a Dynamic Environment

These powerful and dynamic forces—fast-paced changes in societal and ethical expectations, the global economy, government policies, the natural environment, and new technology—establish the context in which businesses interact with their many market and nonmarket stakeholders, as discussed in Chapters 14 to 19. This means that the relationship between business and society is continuously changing in new and often unpredictable ways. Environments, people, and organizations change; inevitably, new issues will arise and challenge managers to develop new solutions. To be effective, corporations must meet the reasonable expectations of stakeholders and society in general. A successful business must meet *all* of its economic, social, and environmental objectives. A core argument of this book is that *the purpose of the firm is not simply to make a profit, but to create value for all its stakeholders.* Ultimately, business success is judged not simply by a company's financial performance but by how well it serves broad social interests.

Summary

- Business firms are organizations that are engaged in making a product or providing a service for a profit. Society, in its broadest sense, refers to human beings and to the social structures they collectively create. Business is part of society and engages in ongoing exchanges with its external environment. Together, business and society form an interactive social system in which the actions of each profoundly influence the other.
- According to the stakeholder theory of the firm, the purpose of the modern corporation is to create value for all of its stakeholders. To survive, all companies must make a profit for their owners. However, they also create many other kinds of value as well for their employees, customers, communities, and others. For both practical and ethical reasons, corporations must take all stakeholders' interests into account.
- Every business firm has economic and social relationships with others in society. Some are intended, some unintended; some are positive, others negative. Stakeholders are all those who affect, or are affected by, the actions of the firm. Some have a market relationship with the company, and others have a nonmarket relationship with it; some stakeholders are internal, and others are external.
- Stakeholders often have multiple interests and can exercise their economic, political, and other powers in ways that benefit or challenge the organization. Stakeholders may also act independently or create coalitions to influence the company. Stakeholder mapping is a technique for graphically representing stakeholders' relationship to an issue facing a firm.
- Modern corporations have developed a range of boundary-crossing departments and offices to manage interactions with market and nonmarket stakeholders. The organization of the corporation's boundary-spanning functions is complex. Most companies have many departments specifically charged with interacting with stakeholders.
- A number of broad forces shape the relationship between business and society. These include changing societal and ethical expectations; redefinition of the role of government; a dynamic global economy; ecological and natural resource concerns; and the transformational role of technology and innovation. To deal effectively with these changes, corporate strategy must address the expectations of all of the company's stakeholders.

Key Terms

boundary-spanning departments, *18*
business, *4*
external stakeholder, *9*
focal organization, *11*
general systems theory, *5*
interactive social system, *5*
internal stakeholder, *9*
ownership theory of the firm, *6*
society, *4*
stakeholder, *11*
stakeholder analysis, *10*
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stakeholder interests, *11*
stakeholder map, *16*
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stakeholder (nonmarket), *8*
stakeholder power, *12*
stakeholder salience, *16*
stakeholder theory of the firm, *6*

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Discussion Case: *A Brawl in Mickey's Backyard*

Outside City Hall in Anaheim, California—home to the theme park Disneyland—dozens of protestors gathered in August 2007 to stage a skit. Wearing costumes to emphasize their point, activists playing "Mickey Mouse" and the "evil queen" ordered a group of "Disney workers" to "get out of town." The amateur actors were there to tell the city council in a dramatic fashion that they supported a developer's plan to build affordable housing near the world-famous theme park—a plan that Disney opposed.

"They want to make money, but they don't care about the employees," said Gabriel de la Cruz, a banquet server at Disneyland. De la Cruz lived in a crowded one-bedroom apartment near the park with his wife and two teenage children. "Rent is too high," he said. "We don't have a choice to go some other place."

The Walt Disney Company was one of the best-known media and entertainment companies in the world. In Anaheim, the company operated the original Disneyland theme park, the newer California Adventure, three hotels, and the Downtown Disney shopping district. The California resort complex attracted 24 million visitors a year. The company as a whole earned more than $35 billion in 2007, about $11 billion of which came from its parks and resorts around the world, including those in California.

Walt Disney, the company's founder, had famously spelled out the resort's vision when he said, "I don't want the public to see the world they live in while they're in Disneyland. I want them to feel they're in another world."

Anaheim, located in Orange County, was a sprawling metropolis of 350,000 that had grown rapidly with its tourism industry. In the early 1990s, the city had designated two square miles adjacent to Disneyland as a special resort district, with all new development restricted to serving tourist needs, and pumped millions of dollars into upgrading the area. In 2007, the resort district—5 percent of Anaheim's area—produced more than half its tax revenue.

Housing in Anaheim was expensive, and many of Disney's 20,000 workers could not afford to live there. The median home price in the community was more than $600,000, and a one-bedroom apartment could rent for as much as $1,400 a month. Custodians at the park earned around $23,000 a year; restaurant attendants around $14,000. Only 18 percent of resort employees lived in Anaheim. Many of the rest commuted long distances by car and bus to get to work.

The dispute playing out in front of City Hall had begun in 2005, when a local developer called SunCal had arranged to buy a 26-acre site in the resort district. (The parcel was directly across the street from land Disney considered a possible site for future expansion.) SunCal's plan was to build around 1,500 condominiums, with 15 percent of the units set aside for below-market-rate rental apartments. Because the site was in the resort district, the developer required special permission from the city council to proceed.

Affordable housing advocates quickly backed SunCal's proposal. Some of the unions representing Disney employees also supported the idea, as did other individuals and groups drawn by the prospect of reducing long commutes, a contributor to the region's air pollution. Backers formed the Coalition to Defend and Protect Anaheim, declaring that "these new homes would enable many . . . families to live near their places of work and thereby reduce commuter congestion on our freeways."

Disney, however, strenuously opposed SunCal's plan, arguing that the land should be used only for tourism-related development such as hotels and restaurants. "If one developer is allowed to build residential in the resort area, others will follow," a company spokesperson said. "Anaheim and Orange County have to address the affordable housing issue, but Anaheim also has to protect the resort area. It's not an either/or." In support of Disney's position, the chamber of commerce, various businesses in the resort district, and some local government officials formed Save Our Anaheim Resort District to "protect our Anaheim Resort District from non-tourism projects." The group considered launching an initiative to put the matter before the voters.

The five-person city council was split on the issue. One council member said that if workers could not afford to live in Anaheim, "maybe they can move somewhere else . . . where rents are cheaper." But another disagreed, charging that Disney had shown "complete disregard for the workers who make the resorts so successful."

Sources: "Disneyland Balks at New Neighbors," *USA Today,* April 3, 2007; "Housing Plan Turns Disney Grumpy," *The New York Times,* May 20, 2007; "In Anaheim, the Mouse Finally Roars," *Washington Post,* August 6, 2007; and "Not in Mickey's Backyard," *Portfolio,* December 2007.

Discussion Questions

1. What is the focal organization is this case, and what is the main issue it faces?
2. Who are the relevant market and nonmarket stakeholders in this situation?
3. What are the various stakeholders' interests? Please indicate if each stakeholder is in favor of, or opposed to, SunCal's proposed development.
4. What sources of power do the relevant stakeholders have?
5. Based on the information you have, draft a stakeholder map of this case. What conclusions can you draw from the stakeholder map?
6. What possible solutions to this dispute might emerge from dialogue between SunCal and its stakeholders?