

Advanced Business Strategy Module 4 Slides

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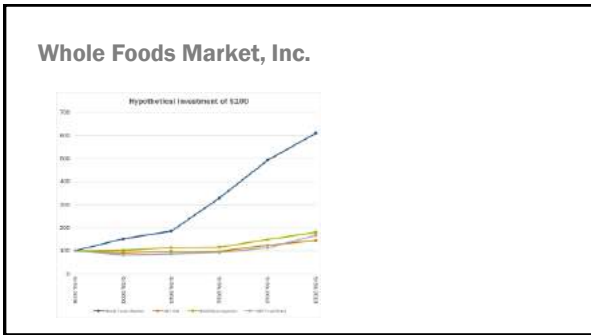
Introduction to Stakeholder Strategy

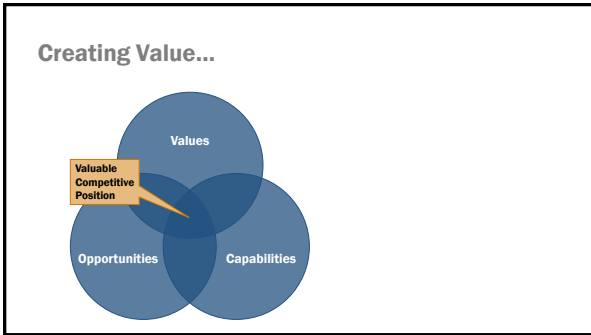


- ### Whole Foods Market, Inc. Awards and Honors
- FORTUNE – World’s Most Admired Companies
 - FORTUNE – 100 Best Companies to Work For
 - Ethisphere Institute – World’s Most Ethical Companies
 - National Retail Federation – Retailer of the Year
 - International Association of Culinary Professionals – Culinary Youth Advocate of the Year
 - Scientific American magazine – Top 25 Green Energy Leaders

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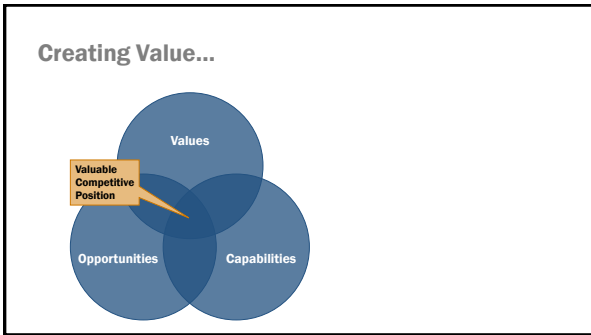


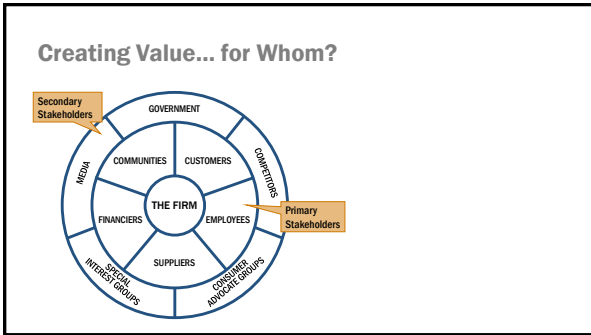


Creating Value for Stakeholders

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- ### Stakeholders
- Key Stakeholders
 - Investors
 - Employees
 - Customers
 - Suppliers
 - Community
 - Secondary Stakeholders
 - Special interest groups
 - NGOs
 - Governments
 - Etc.

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Aligning Key Stakeholders

- ### Stakeholders
- **Key Stakeholders**
 - Investors
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 - **Secondary Stakeholders**
 - Special interest groups
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 - Etc.

Stakeholder Analysis

Stakeholder Issues Matrix

Issue	Employees	Customers	Government	Community	Shareholders
Product Safety	3	1	1	1	3
Job Fulfillment	1	5	5	3	5
Financial Returns	3	5	5	5	1
Impact on Environment	3	3	1	1	5

1 - Critical importance to stakeholder
3 = Somewhat important to stakeholder
5 = Not very important to stakeholder

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Stakeholder Analysis

Stakeholder Impact Matrix

Potential Action	Employees	Customers	Government	Community	Shareholders
Alternative #1	?	?	?	?	?
Alternative #2	?	?	?	?	?
Alternative #3	?	?	?	?	?
Alternative #4	?	?	?	?	?

Aligning Secondary Stakeholders

Stakeholders

- **Key Stakeholders**
 - Investors
 - Employees
 - Customers
 - Suppliers
 - Community
- **Secondary Stakeholders**
 - Special interest groups
 - NGOs
 - Governments
 - Etc.

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Institutional Pressures

- Various stakeholders (often secondary ones) can bring institutional pressure to bear on a firm, influencing its strategy and performance.
- Key questions:
 - When will stakeholders take action against firms?
 - When will these actions be effective?
 - How can and should a firm adapt to these opportunities and threats?

Institutional Pressures

- Institutional pressure emanates from active (typically organized) groups of stakeholders – e.g., advocacy groups, unions, governments, NGOs, etc.
- Why effective stakeholder management is important:
 - Secondary stakeholders can influence the competitive environment
 - Pressures pose significant threats and opportunities for firms

Institutional Pressures

- Can come from:
 - Media (negative press coverage)
 - Governments (regulations, laws, policy)
 - NGOs (activist social organizations)
- Sometimes unfair/unreasonable targeting
- Oftentimes a signal of a larger stakeholder management issue

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Sources of Institutional Pressure

- Political actors may have self-interested motives to act against firms.
- Stakeholders may act (or call for action) against firms in response to:
 - Normative conflict (conflicts with norms and beliefs)
 - Distributional conflict (often market failure)
 - Abuse of market power
 - Existence of negative externalities
 - Markets for common goods and public goods
 - Capitalizing on information asymmetries

Sources of Institutional Pressure

Sources of Institutional Pressure

- Political actors may have self-interested motives to act against firms.
- Stakeholders may act (or call for action) against firms in response to:
 - Normative conflict (conflicts with norms and beliefs)
 - Distributional conflict (often market failure)

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Normative Conflict

- **Definition**
 - Norms are a society's accepted, established beliefs about how things should be done
- **Issue**
 - Firm actions and government policies that conflict with norms may create negative public sentiment and adverse political pressure
- **Examples**
 - Child labor, privatization, unionization
- **Solutions**
 - Public education campaigns, enfranchisement, business model adaptation

**Distributional Conflict:
Market Power**

- **Definition**
 - Market power is the ability to price above competitive levels
- **Issue**
 - Firms may capture consumer surplus at the expense of general welfare
- **Examples**
 - Collusion, cartels, predatory pricing
- **Solutions**
 - Regulation, M&A approval, antitrust lawsuits

**Distributional Conflict:
Negative Externalities**

- **Definition**
 - Negative externalities are costs imposed on one stakeholder by the actions of a second without compensation
- **Issue**
 - Firms lack market incentives to reduce these costs
- **Examples**
 - Noise, air and water pollution
- **Solutions**
 - Regulations (taxes and fees), lawsuits, assigning property rights, stakeholders force internalization

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**Distributional Conflict:
Common Goods**

- **Definition**
 - Common goods are those resources to which everyone has free access, and more for one consumer means less for others
- **Issue**
 - The tragedy of the commons: firms/individuals may over-consume common goods
- **Examples**
 - Fisheries, oil fields, water tables, spectrum
- **Solutions**
 - Grant monopoly over resource, government regulation, self-regulation

**Distributional Conflict:
Information Asymmetries**

- **Definition**
 - Information asymmetries (when one party knows more than another) may create a "market for lemons" or principal-agent problems
- **Issue**
 - Increases transaction costs to the point where economic exchange may not take place
- **Examples**
 - Used cars, organic foods, share value, labor practices
- **Solutions**
 - Reporting, standards and labels (both public and private)

**Institutional (Non-Market)
Strategies**

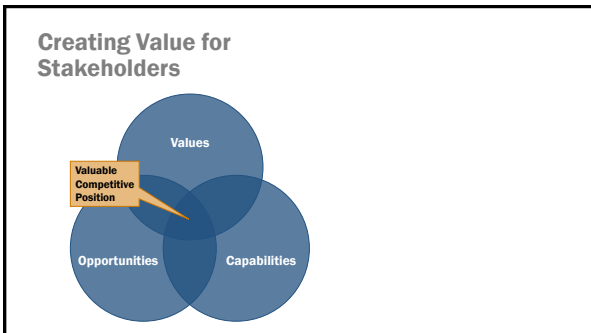
- **Lobby government against and for regulation**
 - Trade associations
- **Pursue recourse through the courts**
 - Patent infringement, contract disputes
- **Try case in the court of public opinion**
 - Public relations, both information dissemination and rhetorical strategies
- **Negotiate with stakeholders**
- **Address stakeholders' concerns or "self-regulate"**
 - Proactive environmental actions, business model adaptation

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Value Creation and Your Values

- ### Strategy and Ethics
- Institutional/non-market strategies can seem overly instrumental
 - Also important to think beyond the immediate financial impact of effective stakeholder management
 - Seeing stakeholders as ends, and not just means to profits
 - Value creation involves values
 - How do you want to lead or manage?



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Module Lessons

Module Lessons

- The **purpose** of a business organization involves creating value for the key stakeholders of that business.
- Different types of stakeholders seek different types of value.
- Effective organizations align the interests, as best they can, of the firm's key stakeholders.

Module Lessons

- Effective business strategy should carefully consider the impact of a firm's decisions or actions on various stakeholders.
- This analysis can point the way to effective strategic actions.
- Secondary stakeholders cannot (and should not) be ignored.

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Module Lessons

- Although stakeholder pressure may result from political motivations, it often reflects an underlying normative or distributional problem.
- Stakeholder management is a way of thinking about ethical considerations in an organization's strategy.
