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

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

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

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

customers or more efficient in the way that it conducts its business." Three firms that clearly exemplify this strategy-stakeholder management alignment are IBM, Unilever, and Federal Express.

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

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

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

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

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

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

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

## STAKEHOLDER MANAGEMENT

### Relationship Level

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

and stakeholder relationship objectives, and in the innovation and creativity they bring to their engagement with stakeholders.

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

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

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

### Portfolio Level

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

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

identity orientation (individualistic, relational, or collectivist), or their stakeholder orientation (skeptical, pragmatic, engaged, and idealistic). We suggest that, in addition to examining firms' overall stakeholder posture from the perspective of responding to salient pressures, it is key to understand how firms choose the scope and customization of their stakeholder portfolios. Why do some firms target a broad range of stakeholders while others focus on developing deep relationships with a few? What lies behind decisions to use a "one size fits all" approach to all stakeholders while other firms make the effort to customize their interactions with different sets of stakeholders? We address these questions as part of our typologies for stakeholder management.

**TYPOLOGIES**

Fig. 1 shows our eight combinations of stakeholder management approaches at the levels of the unique stakeholder relationship and the portfolio of stakeholder relationships.

**Stakeholder Relationship: Core or Peripheral to Competitiveness**

We build on Michael Porter's classic work on competitive advantage to argue that stakeholder management provides a competitive advantage when it is aligned with the firm's strategic positioning, that is, when it is aligned with the firm's choice to compete from a cost leadership or a differentiation position. The question to ask for each stakeholder is: *Can the firm provide value to this stakeholder while enhancing its drivers for cost leadership or differentiation?* If a firm's engagement with a stakeholder is intrinsically linked to the ability of the firm to possess a cost or differentiation advantage, then that stakeholder relationship is *core to competitiveness*. These relationships provide value to a stakeholder while helping the firm to decrease its cost structure, or to enhance its uniqueness in the eyes of the customer, and the customers' willingness-to-pay (WTP) for

the product or service. In contrast, if a firm's engagement with a stakeholder does not impact its cost structure or customers' WTP, then that stakeholder relationship is *peripheral to competitiveness*. These relationships provide value to a stakeholder (e.g., corporate philanthropy as check writing) and increase the firm's goodwill, but they don't directly impact the firm's cost leadership or differentiation advantage.

Our dimension of core or peripheral to competitiveness is related to some degree to Michael Porter and Mark Kramer's distinction between responsive Corporate Social Responsibility (CSR) and strategic CSR. Responsive CSR encompasses being a good corporate citizen (e.g., by donating to the local community) as well as responding to and anticipating potential negative effects of the firm's activities on society. Strategic CSR moves beyond good corporate citizenship and mitigating harmful value chain impacts to mount a small number of initiatives whose social and business benefits are distinctive (e.g., Starbucks offering health insurance, stock options, and now free college education to baristas working at least 20 h a week). Strategic CSR creates opportunities for shared value between business and society. While related, our dimension of core or peripheral to competitiveness differs from that of Porter and Kramer in several aspects. First, both responsive and strategic CSR include relationships that can be core or peripheral to competitiveness, from the perspective of cost leadership and differentiation positions. Also, Porter and Kramer emphasize the need to identify which social needs to address, and to do it in a way that benefits both society and the firm's business. Our proposal does not start with social needs to address, but with the firms' strategic positioning as a guiding force for managerial choices about synergistic stakeholder relationships.

Starbucks competes through a differentiation strategy and chooses to provide value to stakeholders that are core to its competitiveness. In his book "Onward," Starbucks CEO, Howard Schultz, emphasizes that it is critical for Starbucks to advance its position as the "undisputed coffee authority." Starbucks focuses on three stakeholders that contribute to its

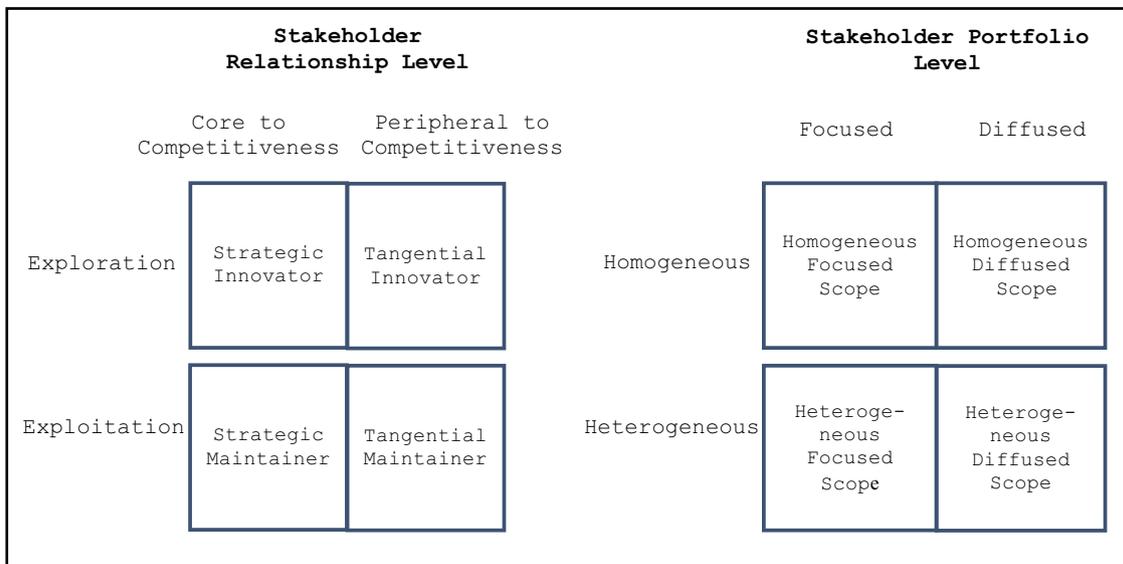


Figure 1 Dimensions of Stakeholder Management

uniqueness: suppliers of coffee beans (its main raw material), the environment (another “supplier” of raw materials, such as water), and its employees. Ethical sourcing, farmer support centers, low-interest loan programs for producers and forest conservation efforts position Starbucks as a preferred purchaser of quality coffee beans and strengthen its differentiation position in the market. In the area of environmental impact, water taste and quality are critical for providing consistent beverages. In 2011, Starbucks launched a new water filtration system that provides the same water quality and reduces waste water by over fifty percent compared with the previous system. Finally, the quality of the coffee experience depends strongly on Starbucks’ baristas. Starbucks invests heavily in training and career development, and is a leader in compensation, benefit, and incentive packages. It recently launched The Starbucks College Achievement Plan, which offers tuition reimbursement for on-line courses from Arizona State University.

Wal-Mart is the ultimate cost leader, and a controversial example of stakeholder management. The company has been long criticized for its lack of attention to stakeholders such as its employees, its suppliers, the environment, and the local community. Not until recently had Wal-Mart aligned its cost leadership strategy with environmental demands. Wal-Mart’s leaders realized that because of its size and economies of scale, an environmental sustainability initiative would help Wal-Mart differentiate itself from rivals, maintain a license to grow, improve its supply chain efficiency, and drive down costs.

A third example is Coca-Cola, which differentiates itself in the beverage industry through its product innovation, and marketing. Sales of sugary drinks have been declining for more than a decade, because of greater awareness among consumers about the link between their eating habits and their health. Over that time, soda companies have expanded their portfolios to include waters, juices, and energy and sports drinks. Coca-Cola’s relationship with consumers of sodas is critical. Thus, the pledge that the three largest soda companies – Coca-Cola, PepsiCo, and the Dr. Pepper Snapple Group – recently made to cut the number of sugary drink calories that Americans consume by one-fifth in about a decade, through a combination of marketing, distribution and packaging, exemplifies an initiative that is core to these companies’ competitiveness.

The same firms discussed above, Starbucks, Wal-Mart, and Coca-Cola, also have relationships with stakeholders that are peripheral to their ability to attain a cost leadership or differentiation position. For instance, Starbucks’ community service efforts, Wal-Mart’s Hunger and Nutrition programs, and Coca Cola’s Human and Workplace Rights initiatives add value to stakeholders and goodwill to the firms, but are more peripheral to the firms’ ability to reduce costs or improve customers’ WTP.

### Stakeholder Relationship: Exploration or Exploitation

For our second dimension, we build on Jim March’s distinction between the learning processes of exploration and exploitation, which helps to answer the question: *When providing value to this stakeholder, will the firm engage in radical*

*innovation or in incremental innovation?* Exploratory learning is designed to uncover new opportunities, respond to volatility in the environment, guide radical change, and capitalize on experimentation and risk taking. Exploitative learning is enacted to maximize efficiency, guide incremental change, avert risk, and leverage the firm’s current knowledge base.

An explorer-type of stakeholder relationship is very innovative. Not only does it deliver radical value to a specific stakeholder, but it revolutionizes traditional models and practices. IBM illustrates this type of relationships. As mentioned earlier, IBM’s Smarter Planet strategy leverages analytics, mobile technology, social business, and the cloud and has resulted in radical innovation in the way IBM relates to its stakeholders. IBM’s CEO, Ginni Rometty, describes: “This is a fairly novel way to look at business – and at corporate responsibility. It’s very different from checkbook philanthropy or even traditional notions of ‘giving back’ or CSR.” IBM’s P-TECH (Pathways in Technology Early College High School) program, for instance, is a radical new educational model for grades 9–14 that leads to an associate degree in applied science and helps prepare students to enter the workforce or complete a college degree. P-TECH graduates are first in line for a job with IBM, for whom talent is a scarce resource and a differentiator.

Exploiter-type relationships employ approaches that are more common and standardized; they are often used by other firms within the same industry and include little to no customization to a specific stakeholder’s needs. Target exemplifies this type of relationships. Target’s approaches to the local community and employees are common among major retailers and include donations to local charities, sponsorship of local events, scholarship programs for schools, and employee engagement programs.

### Four Approaches to Stakeholder Relationships

Four possible stakeholder management approaches emerge from the two dimensions: Strategic Innovator, Strategic Maintainer, Tangential Innovator, and Tangential Maintainer.

#### *Strategic Innovator*

This relationship is core to competitiveness and highly innovative in its approach to stakeholder value creation. As mentioned earlier, Starbucks follows a differentiation strategy based on quality products, which leads to the relationship with farmers being particularly core to competitiveness. Starbucks’ relationship with its farmers is also innovative because of the very comprehensive approach the company has taken. Starbucks’ agronomists collaborate directly with coffee farmers and suppliers, and its researchers help coffee-farming communities mitigate climate change impact. Moreover, the company assists farmers with access to credit, donations for technical support and technology, education programs for their children, access to clean water, skill building in starting a business, and programs against seasonal hunger among coffee-farming families. These programs are novel in their unified focus and contribute to Starbucks’ value proposition by establishing the company as a preferred and ethical purchaser and by introducing the firm to the next generation of farmers.

FedEx's environmental initiatives also demonstrate a Strategic Innovator approach. The company's differentiation strategy is based on high quality service in global express delivery, and relies on its logistics and operation of its transportation system. Because transportation, one of the main pollution sources, is core to FedEx, the company seeks to stay at the cutting edge of environmental practices. The company has upgraded its airplane fleet in order to reduce fuel consumption while providing more capacity. Through alliances, FedEx has also introduced the first hybrid delivery trucks, thought to be the next generation of delivery vehicles. The new trucks' performance goals include an improvement of fuel efficiency by 50%, and a reduction in emissions of soot, by 90%, while being able to deliver as many packages and carry as much weight as a regular FedEx truck. These changes in FedEx' value chain support the company's differentiation position as a leader in transportation services.

### **Strategic Maintainer**

This relationship is core to competitiveness and incrementally innovative in its approach to stakeholder value creation. The "planet" (environment) is one stakeholder core to Southwest Airlines' competitiveness as a cost leader. The airline industry accounts for approximately two percent of annual U.S. greenhouse gas emissions. Thus, according to the Air Transport Association, the environmental and economic interests of the airline companies need to be perfectly aligned. Southwest achieves such alignment through incremental innovations in environmental conservation. These efforts are built around emissions reductions, electricity management, water stewardship, and community outreach. The firm's programs include modernization of its fleet, installation of low-flow/flush plumbing fixtures throughout its building, replacement of three-bulb light fixtures with energy-efficient two-bulb light fixtures, volunteerism, in-kind donations, and financial giving. These conservation initiatives strengthen Southwest's cost leadership position while providing value to the environment.

### **Tangential Innovator**

This relationship is peripheral to competitiveness and highly innovative in its approach to stakeholder value creation, and is the least common of the four types we are discussing. The IBM Smarter Planet business strategy serves as the platform for a broad array of stakeholder relationships including some core and some peripheral to competitiveness. One stakeholder relationship that is peripheral to IBM's competitiveness and very innovative at the same time is that of IBM and academic researchers worldwide. IBM's World Community Grid program pools processing power from idle computers around the world to help solve humanitarian problems that require intensive computer analysis. A large, virtual system is created with computational power that surpasses that of most supercomputers; as a result, research time is reduced from years to months and even to weeks. This novel initiative strengthens IBM's goodwill in the scientific community, which has a more indirect impact on consumers' WTP.

### **Tangential Maintainer**

This relationship is peripheral to competitiveness and incrementally innovative in its approach to stakeholder value

creation. We mentioned earlier how because of its economies of scale, Wal-Mart's environmental sustainability initiatives enhance its cost leadership position. Other Wal-Mart stakeholder relationships, however, help to increase goodwill toward Wal-Mart, but are not directly linked to reducing its cost structure. For example, in the past, Wal-Mart faced complaints and litigation from female employees for gender discrimination. Wal-Mart currently has several programs centered on women as a stakeholder, such as Wal-Mart's Global Women's Economic Empowerment Initiative, which provides training, market access and career opportunities to women around the world. Also, Wal-Mart implemented the Diversity Goals Program, which holds managers accountable for elevating the standards of diversity and inclusion throughout the company, including mentoring and promoting diverse associates. Women are important to Wal-Mart, given statistics showing that women spend more time grocery shopping than men, but are not a direct source of cost leadership; thus, women are a stakeholder peripheral to competitiveness. In its relationship with women, Wal-Mart has chosen the more traditional partnership and donation approach.

### **Stakeholder Portfolio: Focused or Diffused**

As shown in Fig. 1, a firm's stakeholder portfolio consists of stakeholder relationships. Our first portfolio dimension – focused or diffused – helps to answer this question: *How many stakeholder relationships will the firm maintain?* We differentiate between a focused approach targeted toward a limited number of stakeholders and a diffused approach with generalized attention to an extensive number of stakeholders.

A number of factors can contribute to a company's choice between these two approaches. For example, a niche strategy will likely be associated with the firm focusing its attention on a few stakeholders, while greater product/market diversification will expose the firm to a vast array of stakeholders in multiple markets, industries, and countries, and will likely be associated with the firm establishing relationships with a larger array of stakeholders. The need for legitimacy is another factor that becomes strategic at the portfolio level. When legitimacy is an issue, diffused stakeholder portfolios help firms to establish and maintain themselves as "good corporate citizens" and to earn generalized legitimacy from stakeholders. Finally, firms performing well will likely have more financial slack to increase their number of stakeholder relations.

Whole Foods illustrates a focused stakeholder portfolio. Its portfolio includes all major stakeholder groups – suppliers, environment, customers, employees, and communities – and Whole Foods leaders talk about integrating all stakeholders into every business decision. Yet, an examination of Whole Foods' portfolio shows a key emphasis on the relationships with its suppliers (the source of healthy foods and products) and consumers (the basis for future demand of organic healthy food). The focused approach toward stakeholders is consistent with Whole Foods' niche product strategy and limited geographical diversification (the company entered Canada in 2002 and the United Kingdom in 2004), and low need for legitimacy.

In contrast, Wal-Mart illustrates a diffused stakeholder portfolio including initiatives targeted toward renewable energy, women's empowerment, world-wide philanthropy, fighting hunger, veteran employment, support of U.S. manufacturing, suppliers selection and accountability, ethical sourcing, and anticorruption programs, among others. As the world's largest retailer, and a frequent target of scrutiny and controversy, Wal-Mart's extensive product mix, geographical diversification, and need for legitimacy are consistent with its choice of a diffused portfolio of stakeholder relationships.

### Stakeholder Portfolio: Homogeneous or Heterogeneous

Our second portfolio dimension – homogeneous or heterogeneous – helps to answer this question: *How many types of stakeholder relationships will the firm use?* Whereas a company may pursue one type of relationship across stakeholders, some may pursue different types with different stakeholders. The extreme case of a heterogeneous portfolio would include a combination of Strategic Innovator, Strategic Maintainer, Tangential Innovator, and Tangential Maintainer relationships, while the extreme case of a homogeneous portfolio would include only one type of these stakeholder relationships.

Firms with poor prior performance, or those needing legitimacy because of exposure to bad press or because of competing in a controversial industry (e.g., tobacco, gambling, fast food) will likely have a more heterogeneous portfolio of stakeholder relationships, some core and some peripheral to competitiveness. When legitimacy is needed, firms may aim to strengthen competitive positions with a few core stakeholder relationships, but also target many peripheral stakeholders in order to obtain generalized legitimacy.

A stakeholder portfolio with heterogeneous strategies including both exploration and exploitation is closely related to the concept of "ambidexterity," introduced in the organizational learning literature. Ambidexterity is defined as the simultaneous pursuit of both radical and incremental learning. We apply the idea of ambidexterity to heterogeneous stakeholder portfolios that include stakeholder relationships characterized by different degrees of innovation. Firms enter and exit numerous engagements with stakeholders over time, each with a unique degree of risk, uncertainty, knowledge sharing, instrumentality, and moral consequence. Ambidexterity allows firms to allocate sufficient resources to exploitation of current ways to provide value to stakeholders to ensure current viability, while at the same time deploying enough resources to the exploration of new ways to create value and ensure future viability. Particularly in highly dynamic business contexts, a heterogeneous stakeholder portfolio allows firms to develop new forward-looking stakeholder relationships, while also focusing on the refinement of existing stakeholder relationships.

IBM maintains a homogeneous stakeholder portfolio that includes primarily Strategic Innovator and Tangential Innovator relationships. Exploration is the common denominator in its portfolio with IBM seeking to uncover new areas of its stakeholders' needs and desires, and leveraging technology

and analytics in diverse areas such as environmental affairs, community engagement, human resources, and supply chain.

In contrast, McDonald's is an example of a heterogeneous portfolio including Tangential Maintainer, Strategic Maintainer, and Strategic Innovator relationships. Many of McDonald's stakeholders – supply chain partners, the community, employees, and the environment – have been managed in a traditional way through donations and volunteering. However, the company has chosen an innovative approach toward the stakeholder group that is core to its competitiveness: customers. Facing similar pressures to those that Coca-Cola faces in relation to child obesity, McDonald's has been responding to customers' pressure to offer nutritional and healthy food items, leading to novel approaches in menu development (particularly an expansion of choices with fruits and vegetables), training, product allocation, and marketing. McDonald's reduced the size of its iconic fries in kids' Happy Meals from 2.4 to 1.1 ounces. Similarly, meals now include a serving of apple slices, carrots, raisins, pineapple slices or mandarin oranges, which constitutes a radical departure from past menu choices.

### Four Approaches to Stakeholder Portfolios

Four possible portfolio management strategies emerge from the two dimensions: Homogeneous Focused Scope, Homogeneous Diffused Scope, Heterogeneous Focused Scope, and Heterogeneous Diffused Scope.

#### *Homogeneous Focused Scope*

Southwest Airlines maintains a limited number of stakeholder relationships, and is very homogeneous in developing the Strategic Maintainer type of stakeholder relationships. Employees and the environment are core to Southwest's competitiveness, and are watchfully treated through Strategic Maintainer relationships. Southwest has a long history of broad-based cash profit sharing, broad-based employee stock ownership, and even, for many years, broad-based stock options among all of its employees. While these actions may seem as traditional compensation incentives, they carry strategic value for Southwest. In fact, Fortune Magazine highlighted these practices as an example of how all U.S. corporations should behave in a capitalist system that is inclusive to employees.

Another relationship included in a portfolio of Homogeneous Focused Scope is that with the environment. Southwest links its relationship to the environment to its low cost structure by stating that efficient operations are the foundation of its environmental commitment, and that effective and efficient fuel management, facilities construction, and project management practices support low costs. In this sense, no radical innovation is incorporated, but being efficient in business is per se Southwest's contribution to the environment.

#### *Homogeneous Diffused Scope*

IBM delivers value to a broad spectrum of stakeholders through a consistent platform: its Smarter Planet business strategy. Thus, IBM's stakeholder portfolio is diffused and includes Strategic Innovator and Tangential Innovator stakeholder relationships. The company has been consistently

applying the exploration approach across all its stakeholders, going beyond customers to include also countries, cities, and governments.

Another company with a portfolio characterized by a Homogeneous Diffused Scope of stakeholder relationships is Unilever. The Anglo-Dutch multinational is considered one of the world's most innovative and bold corporations. The strategy established in 2009 was to double revenue by 2020 while halving the company's environmental impact. Unilever's sustainability plan includes 2020 goals in the areas of health and hygiene, nutrition, greenhouse gases, water, waste, sustainable sourcing, and better livelihoods, which reflect Strategic Innovator stakeholder relationships with consumers, suppliers, the community, the environment, and society in general.

In the area of health and hygiene, for example, Unilever argues that business-led social missions can improve and save lives, and emphasizes the case of its Lifebuoy soap. Given that worldwide every year two million children under the age of five die of preventable diseases such as diarrhea and pneumonia, and that an important proportion of these deaths could be stopped through hand washing with soap, Unilever created in 2010 a hand washing awareness initiative that has reached 117 million people across the world. Lifebuoy has been able to do this to great extent in its capacity as leading global germ-protection brand and with its network of academic, government, and non-governmental organizations (NGO). At the same time, Lifebuoy has become a fast growing brand, consistently winning market share and impacting hand washing behavior among consumers in developing markets.

The core of Unilever's strategy is to gain a competitive advantage by providing to consumers the basic conditions of price and quality, and then providing them "more on top." Employees are critical to the company's goals and, thus, Unilever nurtures this stakeholder relationship through innovative leadership development programs based on authentic leadership and purpose-driven leadership.

#### ***Heterogeneous Focused Scope***

In terms of the number of the stakeholder relationships that Starbucks maintains, the company focuses on a few but very strong and lasting bonds. Three relationships are particularly core to competitiveness: suppliers, employees, and the environment. The fourth one is more peripheral to competitiveness: the community. We categorize Starbucks' relationships with suppliers, employees, and the environment as Strategic Innovators with innovative efforts that go beyond checkbook donations, and set up a new standard in the industry. In the case of the community, the relationship falls into the Tangential Maintainer category with Starbucks supporting local causes important to its shoppers and neighbors through dollar donations and employee volunteer hours.

Similarly, Intel has a narrow scope of prioritized stakeholders and uses a diverse combination of stakeholder relationship approaches to engage with them. For example, Intel's computer-literacy programs, which are targeted to children, women, and emerging countries, allow the company to reach broader stakeholders such as future skilled workers and future generations of consumers. The availability of talented employees and knowledgeable customers is critical to Intel's differentiation strategy, and the company chooses to nurture these relationships through a Strategic

Maintainer approach based on donations, training, and alliances. Education programs serve as an important channel for Intel's stakeholder management. In Nigeria, for example, Intel teamed up with a local organization that provides cloud-based software. This partnership created a new education solution to allow access to a vast repository of free and low-cost digital textbooks and interactive learning resources. This program helps Intel to position itself as a key partner for Nigeria's educators, government, and technology industry.

A second stakeholder, which is more peripheral to Intel's competitiveness, is the environment. Using a Tangential Maintainer approach, Intel has, for example, been the largest voluntary purchaser of green power in the U.S. since 2008, according to the U.S. Environmental Protection Agency.

#### ***Heterogeneous Diffused Scope***

We mentioned McDonald's as an example of a heterogeneous stakeholder portfolio. The stakeholder portfolio is not only heterogeneous, but also diffused. McDonald's reaches out to a great number of stakeholders around the world, and most of these relationships are of the Strategic Maintainer and Tangential Maintainer types and are built on the foundation of conventional philanthropy, volunteering, and meeting the standards of good citizenship generally recognized in the industry. However, in recent years the company has departed from the "one size fits all" approach and has become more innovative in nurturing its relationship with its customers. McDonald's wants to appeal to health conscious consumers through a Strategic Innovator relationship.

General Electric (GE) is another company with a heterogeneous diffused portfolio of stakeholder relationships. GE actively engages multiple stakeholders in three categories: People (customers, employees, the community, and shareholders), the Planet (environment), and the Economy (e.g., corporate governance and public policy toward economic development and prosperity). GE's *Ecomagination* and *Healthymagination* programs are examples of Strategic Innovator approaches to the environment and customers, respectively. Through *Ecomagination*, GE has been a leader in investing in sustainable product and service innovation, and reducing the environmental impact of its products. Through *Healthymagination*, GE works toward accelerating innovation for affordable healthcare by encouraging open innovation and the co-creation of solutions among stakeholders such as academia, startups, governments, NGOs, and clinicians. These initiatives strengthen GE's position as a differentiator and are at the cutting edge of stakeholder engagement with the environment and customers.

In addition, GE engages in stakeholder relationships through more traditional Strategic Maintainer or Tangential Maintainer approaches. Examples are programs championing the advancement of women leaders, the philanthropic efforts of the GE Foundation, or employees' volunteer hours to the community.

## **PRACTICAL IMPLICATIONS FOR STAKEHOLDER MANAGEMENT**

Because stakeholder management can take many forms, we offer our classification system as a guiding framework for

**Table 1** Choices at the Stakeholder Relationship Level.

	Core to competitiveness Strategic Innovator	Peripheral to competitiveness Tangential Innovator
Exploration	Relationship is innovative in linking stakeholder value creation to the firm's ability to possess a cost leadership or differentiation advantage (Whole Foods with consumers; Starbucks with farmers; Coca-Cola with consumers; Fedex with environment)	Relationship is innovative in finding ways to be a good corporate citizen in areas important to the stakeholder but not directly related to the firm's ability to possess a cost leadership or differentiation advantage (IBM with academic researchers)
	Strategic Maintainer	Tangential Maintainer
Exploitation	Relationship maintains existing ways to link stakeholder value creation to the firm's ability to possess a cost leadership or differentiation advantage (Southwest Airlines with the environment)	Relationship maintains existing ways to be a good corporate citizen in areas important to the stakeholder but not related to the firm's ability to possess a cost leadership or differentiation advantage (Wal-Mart and Target with the local community)

managers to discuss stakeholder decisions. Tables 1 and 2 summarize our proposals of four stakeholder relationship approaches and four stakeholder portfolio approaches.

The business examples provided throughout this article illustrate diverse ways in which companies have implemented stakeholder management approaches. However, many firms inertly follow the path of generic ways to respond to stakeholder demands. Especially for this type of firms, our framework provides guidance as to how managers could approach their stakeholder management as a whole. Answering the questions behind our typologies can help to stimulate debates about which strategy to pursue with a given stakeholder, keeping in mind a desire to shape the entire portfolio of stakeholder relationships so as to improve the firm's competitive advantage.

In applying our framework, it is important to remember that choices between "core or peripheral to competitiveness," "incremental or radical innovation," "focused or diffused," or "heterogeneous or homogeneous" are not "black and white." Someone could argue, for example, that

cash donations or initiatives that help to improve a company's reputation after a media scandal are core to the company's competitiveness. Coca-Cola, for example, investigated its water purification programs after allegations that its beverages contained high levels of pesticide residues in India. While we agree that these efforts are critical to the firms' survival and ability to gain legitimacy, we reserve the word "strategic" to actions that contribute to a firm's cost leadership or differentiation position, as two paths toward competitive advantage. In this sense, stakeholder management actions building legitimacy complement strategic actions.

Similarly, having a focused portfolio does not mean that some stakeholders are completely ignored, but indicates that the firm does not weigh its relationships with different stakeholder groups equally, and as a result, invests significantly more resources in some relationships than others. Firms vary in where they draw the lines between building a focused or a diffused portfolio, and a homogeneous or heterogeneous one.

**Table 2** Choices at the Stakeholder Portfolio Level.

	Focused Homogeneous Focused Scope	Diffused Homogeneous Diffused Scope
Homogeneous	Portfolio of a few stakeholder relationships with similar stakeholder relationship approaches across stakeholders (Southwest Airlines with Strategic Maintainer relationships across few stakeholders)	Portfolio of multiple stakeholder relationships with similar stakeholder relationship approaches across stakeholders (IBM and Unilever with Strategic Innovator and Tangential Innovator relationships across multiple stakeholders)
	Heterogeneous Focused Scope	Heterogeneous Diffused Scope
Heterogeneous	Portfolio of a few stakeholder relationships with a mixed combination of stakeholder relationships approaches across stakeholders (Starbucks with Strategic Innovator and Tangential Maintainer relationships, and Intel with Strategic Maintainer and Tangential Maintainer relationships across few stakeholders)	Portfolio of multiple stakeholder relationships with a mixed combination of stakeholder relationship approaches across stakeholders (McDonald's, Wal-Mart, and General Electric with Strategic Innovator, Strategic Maintainer, and Tangential Maintainer relationships across multiple stakeholders)

While the typologies presented in this article are primarily focused on proactive stakeholder management, firms also engage in reactive stakeholder management, particularly after an accident or a media crisis. Telling examples of these reactive approaches are those of retailers after the Tazreen factory fire in Bangladesh in 2012. A year after the tragedy, in which more than 1,200 workers died, many retailers that sold garments produced inside the collapsing building were refusing to join an effort to compensate the families of the fire victims. Only a handful of retailers – led by Primark, an Anglo-Irish company, and C&A, a Dutch-German company – were deeply involved in getting long-term compensation funds off the ground. Primark's leaders recognized the company's responsibility, and contributed millions for aid to the victims, in addition to providing weeks of emergency food assistance to families and short-term financial aid, and creating a compensation fund to help victims for years. In contrast, Wal-Mart did not agree to contribute to the efforts arguing that the Wal-Mart-related production at Tazreen was unauthorized. Wal-Mart's reaction to the criticism was, instead, to engage in improvements of its worker safety conditions in Bangladesh and other locations around the world.

Given the dynamism of business, managers need to be mindful about the fact that relationships with stakeholders change over time. A firm can be practicing one stakeholder relationship or portfolio approach today and another tomorrow. From a life cycle perspective, it may be that in the birth stage, firms use a Homogeneous Focused Scope portfolio of a few Strategic Innovator relationship strategies, choosing the most important stakeholders and creating value for them while making a stand in the marketplace as a new cost leader or differentiator. In the growth stage, firms may move to a Heterogeneous Diffused portfolio strategy and reach a

greater number of stakeholders with a variety of relationship approaches. In the maturity and decline stages, firms could likely adopt a Homogeneous Focused Scope portfolio of a few Tangential Maintainer relationships to maintain generalized legitimacy. Finally, firms in the revival stage might adopt a Heterogeneous Focused Scope portfolio of Strategic Innovator and Tangential Maintainer relationships, in order to renew the value given to stakeholders that are core to competitiveness, while maintaining generalized legitimacy.

## CONCLUSION

This article seeks to provide a more holistic and comprehensive view of stakeholder management by delineating different approaches firms can take with regard to their stakeholder relationships and stakeholder portfolios. In doing this, we integrate insights from competitive strategy to stakeholder management, and highlight, in particular, the need to align stakeholder decisions to the learning processes of exploration and exploitation, as well as the strategic positions of cost leadership and differentiation. By incorporating a strategic perspective, we seek to complement the notion of firms needing to react to stakeholder pressures exerted upon them. Instead, we position firms as being actively engaged in using stakeholder management as a way to support and reinforce their overall strategic posture. This cross-fertilization helps us to position stakeholder management as critical, not only because it is ethical or moral, but because it is strategic.



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