

# The stakeholder or the firm? Balancing the strategic framework

Graham Kenny

Graham Kenny is CEO of Strategic Factors, Sydney, Australia.

## 1. Skeptics remain

Linking the concept of “stakeholders” with “strategy” dates back to at least the 1960s (e.g. Ansoff, 1965). However, the association of stakeholders with strategy was only firmly cemented with Edward Freeman’s seminal book *Strategic Management: A Stakeholder Approach* (Freeman, 1984). In spite of this, more than a quarter of a century later there are still many practitioners and academics who remain skeptical of any framework in strategy and strategic planning that is stakeholder-based[1]. Some organizations’ strategic plans, for example, only pay lip service to their stakeholders, listing them in a section in the front, but dropping the connection in the remainder of the plan, moving instead to quite different frameworks for objective-setting, strategies and actions.

This article explores why stakeholder frameworks have struggled to take hold in strategy and why managers, directors, CEOs, consultants and academics have to be careful about how they express themselves in this area if they are to remain credible as strategists. It outlines a stakeholder framework for strategy design that, while theoretically sound, gels with boards, CEOs and senior executives.

## 2. A brief history of stakeholders in strategy

It’s widely recognized that it was Igor Ansoff’s 1965 book *Corporate Strategy* that highlighted the place of business strategy in the discipline of management. As Henry Mintzberg notes: “The publication of the book, *Corporate Strategy*, by H. Igor Ansoff, was a major event in the 1965 world of management. As early as it came in this literature, the book represented a kind of crescendo in the development of strategic planning theory, offering a degree of elaboration seldom attempted since (at least in published form)” (Mintzberg, 1994, p. 43). Ansoff’s framework tied together key issues in strategy such as objective-setting and strategy development. However, in his review of organization objective-setting and its relationship to business strategy, he rejected early “stakeholder theory” as found, for example, in Abrams and Carroll (1954) and Stewart *et al.* (1963). As he put it, “The theory maintains that the objectives of the firm should be derived by balancing the conflicting claims of the various ‘stakeholders’ in the firm: managers, workers, stockholders, suppliers, vendors” (Ansoff, 1965, p. 39). In this interpretation, organization objectives become what stakeholders want from the firm. Viewed this way a stakeholder framework for developing objectives looks like all give and no take. It is hardly surprising, therefore, that Ansoff was not in favor of a stakeholder framework in strategy.

Post-1965, a number of articles emerged that extol the virtues and validity of a stakeholder approach to strategy. Among them was Bernard Taylor’s article entitled “The future development of corporate strategy” (Taylor, 1971), which downplayed the primacy of shareholders and suggested that, over time, a broader stakeholder focus would come to

**“... managers of organizations and directors on boards are left to their own devices as to how to go about designing measurable objectives.”**

dominate. Another was William Dill's (1975) piece in *Long Range Planning*. Dill suggested that one of the major and least appreciated challenges for companies of the future would be “coping with an active intrusive environment which is made up of individuals and organizations which seek to influence the strategic decisions of the enterprise” (Dill, 1975, p. 57).

As valuable as such commentaries are, history has shown that completed frameworks obtain the real traction in the field of business strategy. These usually come in the form of books – and so it was with Michael Porter. Here Porter reflects on frameworks and their impact: “My main body of work is what I call frameworks. A framework tries to capture the full richness of a phenomenon with the most limited number of dimensions. The artistry of model building is in deciding what to extract and how to manipulate it. The artistry of case writing is the sense of the clinician, the ability to tease out and understand the essence of what's really going on. In framework building, the artistry is in providing the smallest number of core elements that still capture the variation and the dimensionality of competition. And these dimensions then have to be intuitively grounded. That is, if you present a practitioner with the five forces, it must make sense in the context of his or her industry” (Argyres and McGahan, 2002, p. 46).

Porter's book, *Competitive Strategy* (Porter, 1980), hit the scene in 1980. With its practical focus, it is in the same vein as Ansoff's *Corporate Strategy*, and both books present a framework grounded in the relevant literature. The other common feature is that both books are not built on a stakeholder framework. Neither is Porter's subsequent and equally influential book *Competitive Advantage* (Porter, 1985).

It is difficult to overestimate the impact that Porter's two books have had on the field of business strategy/strategic management/strategic planning. It's fair to say, however, that they swept everything before them, becoming quickly infused into standard strategic management textbooks. They also cemented an “industrial economics” view into the strategy literature. “Stakeholders” found themselves once again pushed into the back seat.

As an illustration of how any stakeholder approach to strategy became starved of oxygen at this time, take this quote from Slatter (1980): “The idea of stakeholder analysis – the process by which the expectations of various groups with which the company interacts are analysed – has tended to go out of fashion as business planning has focused on developing and maintaining sustainable competitive advantages on a product market segment or strategic business unit (SBU) basis. This development in business planning has undoubtedly been correct as it has helped firms focus on the critical economic issues facing their businesses. While some firms have paid lip service to the idea of stakeholder analysis put forward in the late 1960s and early 1970s, few firms took stakeholder analysts very seriously – largely because of the difficulty of identifying practical economic pay-offs from the analysis” (Slatter, 1980, p. 58).

So there the field lay until 1984. It was in that year that Edward Freeman released *Strategic Management* (Freeman, 1984). Here at last was a book that did provide a framework in stakeholder-based strategy. In 2010 Freeman reflected on his quest at that time: “The questions which Freeman had during this time were pretty straightforward: (i) Could one develop a method for executives to strategically manage stakeholder relationships as a routine ongoing part of their day-to-day-activities? (ii) Could strategic management as a discipline be recast along stakeholder lines?” (Freeman *et al.*, 2010, p. 55).

In spite of Freeman's contribution, at that time and for almost 25 years, stakeholders in strategy remained out of favor, with strategy ideas firmly rooted in Porter and industrial economics. Freeman and his colleagues acknowledged this failure to catch on when they wrote: "This perspective [economic performance] is important to understanding why the stakeholder approach has struggled for broad acceptance in the field of strategic management" (Freeman *et al.*, 2010, p. 91), being seen "as a tangential theory associated with social responsibility and business ethics" (Freeman *et al.*, 2010, p. 95).

### 3. Why stakeholders stalled

I can suggest at least three reasons why stakeholders stalled in strategy. The first of these concerns momentum.

As I've already pointed out, Porter's ideas were already established in academics' minds and management textbooks at the time of the release of Freeman's book. Porter's less "messy" approach to strategy development had found fertile ground with management academics who were often familiar with standard economics models of the firm. His ideas had developed the kind of momentum that is difficult to stop, even if the alternative, stakeholder, view had a champion to promulgate it – which it hadn't. Stakeholder theory in strategy had, in fact, lost its champion – which brings me to the second reason.

This concerns Freeman himself. Trained as a philosopher, Edward Freeman joined the academic world of management theory in 1980 as an Assistant Professor in the Management Department at the Wharton Business School. He continued there until 1983, when he went to the University of Minnesota and moved away from teaching business policy and the principles of management to teaching business ethics. As a result he paid little attention to prosecuting his case for a stakeholder framework in strategy. As Freeman himself explains it: "On reflection, given the split or separation between 'business' and 'ethics,' this may have been a mistake, as it led to many misinterpretations of the basic argument. [. . .] As a result of that decision, 'stakeholder theory' became more embedded in 'business ethics' than it did in strategic management" (Freeman *et al.*, 2010, p. 61).

The third reason a stakeholder framework in strategy failed to take off concerns the framework itself. It is interpreted by many academics and practitioners as "weak" in not expressing the true nature of organizational relationships. Let me now elaborate on this point.

### 4. Managing *for* or managing *through*?

Unless it is appropriately framed, "stakeholder talk" worries boards, CEOs and managers because it seems to turn things upside-down. Company law, which details the duties and responsibilities of boards and managers in all sectors – private, public and not-for-profit – requires directors and managers to look after the best interests of the company (Baxt, 2012). In jurisdictions such as Europe, Canada, the USA and Australia, a duly constituted company takes on all the legal attributes of a person. Thus when a board or CEO or a group of senior executives speaks of "our" objectives, they've quite rightly taken on the persona of the company. Their thinking has become firm-centric.

A firm-centric organization view is also in accord with economics models enshrined in "the theory of the firm" and economics' own spiritual roots in Adam Smith's *The Wealth of Nations* (Smith, 1970). In these the firm or organization is the focus and its interests are primary. A stakeholder approach to strategy, unless clearly and carefully stated, runs the risk of putting stakeholder interests first – making it stakeholder-centric – and firm or organization interests second. This is what concerned Ansoff almost 50 years ago (Ansoff, 1965). It is an orientation that clearly jars with boards, CEOs and senior executives when juxtaposed with company law.

As we know from experience, it's easy to slip into stakeholder-centric language in discussing strategy and stakeholders. To remain firm-centric and not drift in this way requires a

consistent mindset and clear framework. In strategy, it's managing *through* stakeholders for the firm, not managing *for* stakeholders.

There are a couple of reasons for the water having become muddied in this regard. The first of these lies in the definition of what constitutes a "stakeholder". The broader view (ethics) admits competitors as stakeholders, for example (Freeman, 1984; Freeman *et al.*, 2007). While this may be fine for business ethics, in strategy competitors are the antithesis of a stakeholder. The role of competitors, in practice, is to lure away an organization's stakeholders, i.e. its customers, employees, suppliers and shareholders. Each of these groups has their own particular set of competitors. As Post *et al.* (2002) have put it: "The competitors of a particular firm contribute no stake in its operation and are more likely to benefit from its failure than from its success; they are therefore not stakeholders in it, as that term is used here" (p. 23).

The second reason is that it isn't practical nor accurate, as I've already suggested, to manage a firm with the primary focus on building value for multiple stakeholders. This is the equivalent of having no focus at all! And this is what worries many about stakeholder frameworks. To manage competently, CEOs and boards need focus. So by necessity, as well as by law, a board and CEO must take a firm-centric approach by managing the interests of their organization through stakeholders to ensure its survival, prosperity and sustainability. It's inaccurate, though, to equate a firm-centric approach with "maximizing shareholder value". They're not inextricably linked.

## 5. The firm-centric stakeholder framework in action

Wesfarmers, Australia's seventh largest enterprise by market capitalization, is a highly diversified and very successful public company. Its CEO, Richard Goyder, says: "Of course we want to make a dollar. But we want to do that in a way that is ethical and responsible. That means making sure that our employees have a safe place to work and opportunities to develop. It means treating the environment with respect. It means dealing appropriately with our customers and suppliers. And it means supporting and benefiting the communities in which we operate" (Morgan, 2006). Goyder also states publicly that he and his board would not know when they were maximizing shareholder value. For him, maximizing shareholder value is simply not an operational concept. Instead, what Wesfarmers' management team and Board do is get the "settings" right in quantitative terms for each of the key stakeholders in order to achieve long-term sustainability. This is managing for the firm through stakeholders.

Another illustration of this firm-centric stakeholder framework in practice takes place during the planning and budgeting process that occurs regularly in organizations. Here the CEO and his or her management team develop the firm's budget, considering it line by line with stakeholders ever-present drivers. Revenue, the top line on the business's income statement, comes from the key stakeholder, customers. One aim in the planning and budgeting process is to project revenue growth, but not just any old revenue, profitable revenue. This moves the discussion to pricing, among other things. The team also considers other factors that influence profitable revenue growth, such as product range and product quality. Further consideration of profitability draws the focus to expenses. One aspect of this is "cost of goods sold". This involves another key stakeholder, suppliers. As the discussion on expenses moves along, wages and salaries come into focus with employees as key stakeholders. When the issue of return on assets arises, shareholders are the focus.

**“Organization objectives concerned with improving productivity and increasing innovation are what a firm wants from another stakeholder: employees.”**

If we apply a broader lens to this process, we can start to address what underpins the decision-making of CEOs, boards and managers. Firms do indeed seek to be as profitable as possible. But they also seek to make their customers as happy as possible while at the same time charging them as much as possible. They attempt to have satisfied employees to the highest degree possible while boosting their productivity as high as possible. In addition, firms want their shareholders to be as content as possible while the organization retains as much profit as possible to fund future organizational growth. And so it goes. But none of these relationships entails “maximization”. Instead it’s a series of continual trade-offs between stakeholders towards some basic underlying purpose which is firm-centric, *viz*, the long-term sustainability of the organization.

As a further illustration of the firm-centric stakeholder framework in action, take Procter & Gamble. A.G. Lafley was, until recently, its Chairman and CEO. In his article “What only the CEO can do”, Lafley (2009) describes his journey in improving the growth and profitability of the company starting in 2000 when he became CEO. He talks about his role in “linking the outside to the inside” and that a CEO is held accountable “to the measures and standards of diverse and often competing external stakeholders” in achieving corporate objectives such as growth. When he took over as CEO, he said: “We won’t succeed without a deep understanding of external stakeholders and their competing interests, and how those interests correspond with the capabilities and limitations of the organization” (p. 56). As a consequence, under his regime P&G designed a business strategy for all its key stakeholders, but remained clearly focused on outcomes for P&G as a corporation. P&G worked through its network of stakeholders looking for opportunities to raise performance on the measures appropriate to each stakeholder group, thus lifting the performance of the whole network ultimately for the benefit of P&G as an entity. It worked. When Lafley took over, P&G was ranked 31st among the *Fortune* 500 in sales. Today it ranks 20th. It was 22nd in profit and now it is ninth (P&G’s website).

Rotary International, the largest not-for-profit organization in the world, with 1.2 million members in 34,000 clubs in 200 countries, takes on massive projects such as “PolioPlus”. This project, started by Rotary and backed by the World Health Organization, UNICEF, the US Centers for Disease Control and Prevention and the Bill & Melinda Gates Foundation, over a period of 27 years has almost eliminated polio from the world. In spite of these major achievements, Rotary is in trouble and its struggles illustrate the need to be firm-centric in dealing with stakeholders. Rotary’s problem is declining membership. Worldwide membership numbers in 2012 have only got back to the 1997 level. This statistic hides two parts of an equation. The first is that Rotary numbers are declining rapidly in Western countries such as the USA, Canada, the UK and Australia. The second is that numbers are growing in Asia and other places.

The question is: what to do about membership decline in the West? One stakeholder answer is “deliver value to your stakeholders” – in this case, Rotary’s members. But these members are the current members, and they are aging, and dying. The rapid increase in the average member’s age has interesting consequences for the organization. One of these is that a generation gap makes its mark: if you look after the needs of members 65 years and above, you may overlook the needs of 40-year-olds. The answer to the issue isn’t found in focusing on the needs of current members as stakeholders, which is precisely what many Rotary Clubs do. That would see Rotary go to the grave with its members. The answer is found by going “firm-centric” and asking: what will sustain Rotary as an entity in the long term and, therefore, who are its target members? The answer is 30-to-50-year-old male and female business people. It’s this group who are Rotary’s future and whose interests need to be catered to, not necessarily its current membership.

## 6. Implementing the framework

### 6.1 Identify key stakeholders

It’s impossible to develop an effective set of strategies for an organization without first identifying its key stakeholders. These strategies will focus on those groups that have or

**“... if organization objectives are underpinned by a stakeholder structure, why not design a more systematic approach to objective setting by making the stakeholder structure explicit, right at the outset?”**

could have a major impact on an organization's future. Building and strengthening these relationships leads to the exclusion of an organization's competitors. In the case of the Wesley Mission, a not-for-profit organization that provides services to people with disabilities, disadvantaged youth, retired individuals and the homeless throughout Australia, the key stakeholders identified were:

- the Church (as owner);
- clients (those individuals mentioned above);
- families;
- client representatives (government and other agencies);
- funding bodies;
- staff;
- volunteers;
- external service providers; and
- donors.

#### *6.2 Identify what your organization wants from stakeholders*

This is the vital and often missing step from most stakeholder frameworks. Without it, any stakeholder framework will slip into stakeholder-focused territory. This identification process involves a number of sub-steps, the details of which need not concern us here, but which I have detailed elsewhere (Kenny, 2001, 2005, 2012). Suffice to say at this point that without a senior executive team knowing what its organization wants from a stakeholder group in order to survive and prosper – its organization objective – it cannot sensibly outline strategy for that group. To illustrate: if my organization wishes to grow profitable revenue from customers, and targets have been set on revenue and profit over time, then, and only then, can I design meaningful strategies for customers. If I haven't anchored strategies in this way, they become meaningless rhetoric.

#### *6.3 Design strategies to achieve organization objectives*

Organization objectives are derived via the previous step; the organization is the primary focus, and remains so. However, achieving organization objectives only occurs by meeting the needs of stakeholders. The details of those needs I call "strategic factors" (Kenny, 2001, 2005). Here's a case in point. A company I'll call Boronia Care wanted to raise the level of productivity and innovation from one of its key stakeholders: employees. Boronia Care operates a chain of retirement villages and, to achieve its targets on its productivity and innovation objectives, the CEO and senior management team knew that the organization had to do well on the strategic factors relevant to employees in its industry. It found, via research, that these were:

- organization image;
- organization culture;
- location;
- employee recognition;

- remuneration;
- skill development;
- promotional prospects; and
- working conditions.

Analysis of the organization's competitiveness on these factors indicated that while Boronia Care's hands were tied on remuneration, being largely government-funded, the organization had considerable scope to lift its performance on employee recognition, organization culture and working conditions.

## 7. Time for a new paradigm

A firm-centric stakeholder framework provides a focus for managerial activity – organization prosperity and survival – while at the same time a method to achieve it: through stakeholder satisfaction. Such a framework results in CEOs and boards establishing a set of objectives and targets for what is wanted from stakeholders as well as what is necessary to be provided to stakeholders to get it. This is called “getting the settings right”, as one CEO described it. While no individual stakeholder or organization score is maximized, but does rather reach a satisfactory, targeted level, the approach does lead to an objective function that managers certainly seek to maximize: the probability of the long-term sustainability of the organization.

This is, of course, ultimately subjective. But all measurement is ultimately subjective, even profit. Someone has to evaluate whether the number is “okay” or “not okay”. However, the firm-centric stakeholder approach provides several indicators, key performance indicators, in fact; based on an organization's relationships with its key stakeholders, they guide managerial decision-making towards sustainability. Ultimately, the widespread adoption of this framework should see businesses move away from short-term, single-measure methods that have been so damaging in the past.

Albert Einstein is quoted as saying: “We can't solve problems by using the same kind of thinking we used when we created them” My suggestion is that we need to re-think the strategy frameworks we place before CEOs, boards and executive teams which condition them to act in the ways they do. Many lead to short-term thinking, distorted incentive systems and reckless decision-making. The global financial crisis, together with global warming and renewed concerns about excessive economic growth and over-population, are all drawing us back to a systems view of the world – and of organizations. A strategy framework, built on stakeholders with the organization at its center and long-term sustainability as the outcome, is one step towards renewal.

**Keywords:**  
 Strategy,  
 Strategic planning,  
 Stakeholders,  
 Firm-centric,  
 Framework,  
 Organization objectives

## Note

1. In 2002, Andrew Pettigrew, Howard Thomas and Richard Whittington produced a book of readings called *Handbook of Strategy and Management* (Pettigrew *et al.*, 2002). The book contains 21 chapters and many more contributors. Stakeholders are ignored throughout. Stakeholders are similarly overlooked in another two-volume compendium published in 2003, called *The Oxford Handbook of Strategy* (Faulkner and Campbell, 2003). It simply illustrates to me that stakeholders in strategy, at least in academic circles, have stagnated for a quarter of a century.

## References

- Abrams, F. and Carroll, T.H. (1954), “Management responsibilities in a complex world”, *Business Education for Competence and Responsibility*, University of North Carolina Press, Chapel Hill, NC.
- Ansoff, H.I. (1965), *Corporate Strategy*, Penguin Books, Harmondsworth.
- Argyres, W. and McGahan, A.M. (2002), “An interview with Michael Porter”, *Academy of Management Executive*, Vol. 16 No. 2, pp. 43-52.
- Baxt, B. (2012), *Duties and Responsibilities of Directors and Officers*, Australian Institute of Company Directors, Sydney.

- Dill, W.R. (1975), "Public participation in corporate planning: strategic management in a kibitzer's world", *Long Range Planning*, Vol. 8 No. 1, pp. 57-63.
- Faulkner, D.O. and Campbell, A. (Eds) (2003), *The Oxford Handbook of Strategy*, Vols 1 and 2, Oxford University Press, Oxford.
- Freeman, R.E. (1984), *Strategic Management: A Stakeholder Approach*, Pitman Publishing, Marshfield, MA.
- Freeman, R.E., Harrison, J.S. and Wicks, A.C. (2007), *Managing for Stakeholders*, Yale University Press, New Haven, CT.
- Freeman, R.E., Harrison, J.S., Wicks, A.C., Parmar, B.L. and de Colle, S. (2010), *Stakeholder Theory*, Cambridge University Press, Cambridge.
- Kenny, G. (2001), *Strategic Factors: Develop and Measure Winning Strategy*, President Press, Sydney, (republished in 2005 as *Strategic Planning and Performance Management*, Elsevier Butterworth-Heinemann, Oxford).
- Kenny, G. (2005), *Strategic Planning and Performance Management*, Elsevier Butterworth-Heinemann, Oxford.
- Kenny, G. (2012), "From the stakeholder viewpoint: designing measurable objectives", *Journal of Business Strategy*, Vol. 33 No. 6, pp. 40-46.
- Lafley, A.G. (2009), "What only the CEO can do", *Harvard Business Review*, May, pp. 54-62.
- Mintzberg, H. (1994), *The Rise and Fall of Strategic Planning*, Prentice-Hall, Hemel Hempstead.
- Morgan, S. (2006), "Blueprint for success", *Management Today*, October, pp. 7-11.
- Pettigrew, A., Thomas, H. and Whittington, R. (Eds) (2002), *Handbook of Strategy and Management*, Sage Publications, London.
- Porter, M. (1980), *Competitive Strategy*, The Free Press, New York, NY.
- Porter, M. (1985), *Competitive Advantage*, The Free Press, New York, NY.
- Post, J.E., Preston, L.E. and Sachs, S. (2002), *Redefining the Corporation*, Stanford University Press, Stanford, CA.
- Slatter, S.S. (1980), "Strategic planning for public relations", *Long Range Planning*, Vol. 13 No. 3, pp. 57-69.
- Smith, A. (1970), *The Wealth of Nations*, Pelican Books, Harmondsworth, (originally published 1776.).
- Stewart, R.F., Allen, J.K. and Cavander, J.M. (1963), "The strategic plan", Research Report 168, Stanford Research Institute, Palo Alto, CA.
- Taylor, B. (1971), "The future development of corporate strategy", *Journal of Business Policy*, Vol. 2 No. 2, pp. 22-38.

### About the author

Graham Kenny is CEO of the consulting firm Strategic Factors and author of *Strategic Planning and Performance Management* (Elsevier Butterworth-Heinemann, 2005) and *Diversification Strategy* (Kogan Page, 2009). His research, consulting and writing focus on strategic planning and performance measurement – the latter especially linked to strategy. Graham Kenny can be contacted at: [gkenny@strategicfactors.com](mailto:gkenny@strategicfactors.com)

---

To purchase reprints of this article please e-mail: [reprints@emeraldinsight.com](mailto:reprints@emeraldinsight.com)  
Or visit our web site for further details: [www.emeraldinsight.com/reprints](http://www.emeraldinsight.com/reprints)