Chapter 11
Values-Based Stakeholder Management: Concepts and Methods

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11.1 Introduction

Stakeholder management has been proposed as a foundation of strategic management (Freeman, 1984), and it is key to "sustainable strategizing for positive impact" (the subtitle of this volume). Stakeholders have acquired a pivotal role for management due to ongoing substantial changes in the corporate world, affecting the established strategic management frameworks, concepts, and methods. These fundamental changes and their impact on stakeholder management will be discussed in this chapter. Based on the difference between interests and values a values-based reframing of the stakeholder concept and corresponding management methods is suggested, such as the "values through conversation" approach (Freeman & Auster, 2015) and values-based innovation methods (Breuer & Lüdeke-Freund, 2017a). A discussion of recent publications at the intersection of stakeholder management, organisational values and sustainability-oriented strategic management is the foundation for an advanced concept of values-based stakeholder management as well as advancements of strategic management methods and practices.

The integrated management framework (Bleicher, 1994) provides a starting point for the following discussion. According to this framework, normative, and strategic management set the frame for operational management that steers a company's daily activities and decisions. The selection and application of, for example, marketing instruments (traditionally referred to as the four Ps of product, price, place, and promotion), but also HR concerns of job analysis, recruiting and administration, are

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mainly dealt with by operational management (therefore, also termed instrumental management). Strategic management aims to develop and improve the resources, capabilities, and roadmaps that are necessary to survive and succeed in the market, i.e. to gain competitive advantages over competing rivals. Finally, normative management deals with the overarching values, identity, and aspirations of an organisation (Bleicher, 1994). These are formulated and shared as organisational visions, missions and purpose statements, and codified as organisational norms, principles and strategies for their realization.

This chapter will focus on the strategic and normative levels of stakeholder management and discuss the implications of two shifts for a values-based view of stakeholder management: First, the shift from strategic planning with a focus on shareholder value to strategic management and stakeholder integration as foundation for strategic decision making and, second, the distinction between interests (as a widespread conceptual foundation of stakeholder management) and values.

Applying a stakeholder approach to strategic management, and reframing it from a values-based point of view, may have important effects: It increases the chances that not only short-lived attitudes and interests, or the "best deal" in bilateral negotiations, determine the course of strategic decisions, but a long-term orientation in normative and strategic management. This is facilitated by new business models that cater to what people really care about. To support a values-based approach to stakeholder management, new conceptual distinctions, and methodical implications are presented in this chapter. Three forms of stakeholder management are proposed (defensive, integrative, overarching). It is discussed how to clarify and develop stakeholder values (e.g. by means of ongoing "values conversations"; Freeman & Auster, 2015) and exemplified how to reframe and adapt methods of stakeholder analysis and management (e.g. as an element of values-based business modelling; Breuer & Lüdeke-Freund, 2017a).

11.2 Milestones from the Discourse on Stakeholder Interests

Since the 1960s, and lasting until today, corporate governance scholars and practitioners have controversially discussed the primacy of shareholder versus stakeholder interests, i.e. whether the interests of shareholders should direct and ultimately justify management decisions and corporate actions, or whether organisational objectives should be derived from diverse stakeholder interests. When the term stakeholder was introduced at the Stanford Research Institute in 1963, it referred to anyone having a stake in corporate actions, respectively "those groups without whose support the organization would cease to exist" (Freeman & Reed, 1983: 88). The initial listing of these groups included employees, customers, suppliers, lenders and society in addition to holders of stock. Freeman and Reed (1983: 91) defined stakeholders in a wider sense including friendly and hostile groups affecting an

organisation: "Any identifiable group or individual who can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives. (Public interest groups, protest groups, government agencies, trade associations, competitors, unions, as well as employees, customer segments, shareowners, and others are stakeholders, in this sense)."

Early on stakeholder theory was criticised to collapse the notions of objective and responsibility of the organisation, and instead put economic interests first while assigning a "secondary modifying and constraining influence" to issues of social responsibility (Ansoff, 1965: 33–35). Practical advantages played into the hands of the shareholder view can be easily measured in financial terms, such as earnings per share or stock price, whereas stakeholder interests are much more difficult to grasp. Accordingly, it is also more difficult to institutionalize the representation of stakeholders in the corporate constitution and management bodies. Moreover, their financial investments provide shareholders with a more immediate lever to exert power than any other stakeholder group. Until today, primacy of shareholder value remains the dominant viewpoint for most practitioners and academic textbooks (following for instance Rappaport, 1986 who argues for shareholder value as the only reliable success measure of corporate strategy).

Others questioned the appropriateness of an approach treating stakeholders as secondary or external to strategic management and called for stakeholders taking an active role in management decisions, i.e. a move "from stakeholder influence to stakeholder participation" (Dill, 1975). Several formats such as stakeholder advisory boards and stakeholder audits have been introduced. In Germany, for example, several laws require the active participation of one stakeholder group, namely employees, on the board and works council.

Following a values-based view, the focus only on shareholder value is an one-dimensional form of "value(s)-based" management that defines financial value creation and distribution as the one and only purpose of business. Business anthropologist Karen Ho identified the notion of shareholder value, understood in terms of mission and only purpose of the corporation, as key to understanding investment banking culture on Wall Street and as a major driver behind the American financial crisis in 2001. Ho carried out field research on Wall Street over seventeen months from February 1998 to June 1999 among investment bankers working at major investment banks. Through interviews and observation, she found that the "notion of shareholder value . . . distills their [the investment bankers] values and serves as their ideal "model" of how corporations, including their own, should behave . . . Representing a host of values, shareholder value allows bankers to translate their particular values into a number, which acts as its own explanatory force. It is a discursive strategy used by powerful financial institutions who want to articulate their vision of the world and fight for their elite interests by utilizing and galvanizing a particular shareholder-value worldview to impose short-term financial and market-based decision making on corporations" (Ho, 2009: 180). The author claims that in spite of the attempt to maximise benefits for the owners, shareholder value does often not materialize but instead leads to stock-price volatility, decline, and crisis of productive and investment firms working under this regime. Investigating careers of investment bankers, she shows how the shareholder view eventually turns against its protagonists.

Several developments since the turn of the century have further strengthened the position of stakeholders in theoretical discussions and managerial considerations: The growing importance of value networks and business ecosystems, of business models in general and business models for sustainability in particular, and a normative turn in customer and labour markets.

11.2.1 Value Networks and Business Ecosystems

Based on industrial trends such as a dematerialization of products and services, increasing technological complexity and new forms of relationships between firms beyond straight competition, in the 1990s the notion of value chain was complemented by an understanding of value networks and business ecosystems embedding focal organisations (e.g. Christensen & Rosenbloom, 1995; Normann & Ramírez, 1993; Stabell & Fjeldstad, 1998). A value network is composed of relatively autonomous actors who manage their operations independently, but work together based on common, i.e. shared, principles and service level agreements (Lindgren, Taran, & Boer, 2010; Ritala & Huizingh, 2014).

Closely related, but independent of location and proximity of values network actors, and with an emphasis on competition and co-evolution is the idea of the business ecosystem as it was defined by Moore as: "An economic community supported by a foundation of interacting organizations and individuals—the organisms of the business world. The economic community produces goods and services of value to customers, who are themselves members of the ecosystem. The member organisms also include suppliers, lead producers, competitors, and other stakeholders. Over time, they co-evolve their capabilities and roles, and tend to align themselves with the directions set by one or more central companies. Those companies holding leadership roles may change over time, but the function of ecosystem leader is valued by the community because it enables members to move toward shared visions to align their investments, and to find mutually supportive roles" (Moore, 1996: 26). As business operations expand beyond the limits of focal firms (or, *single* firms), stakeholders leave the periphery of value creation processes and become constitutive elements of value creating networks and business ecosystems.

Instead of focusing on the company or industry, looking at the "value-creating system itself" (Peppard & Rylander, 2006: 131) and the co-evolution of stakeholders shifts attention from value-adding activities to the co-creation and re-invention of value. Customers and further stakeholders throughout the value network count as valuable contributors to interactive forms of value creation. Motivated by this shift in attention, earlier works in the field of strategic management mainly focused on the possibility to help "customers to understand that their role is not to *consume* value but to *create* it" (Normann & Ramírez, 1993: 67, original italics). More recent research extends this approach and aims to improve our understanding of how companies and their stakeholders can co-create the very meaning of business success in relation to sustainability considerations (Schaltegger, Hörisch, & Freeman, 2017).

11.2.2 Business Models and Sustainability-Orientation

An increasingly important approach of strategic stakeholder management emerged in the field of corporate sustainability, namely the development of so-called "business models for sustainability" (Boons & Lüdeke-Freund, 2013; Lüdeke-Freund & Dembek, 2017; Schaltegger, Hansen, & Lüdeke-Freund, 2016).[1] Business models, understood as a conceptual tool for strategic management and a means to systematically analyse, develop, and implement an organization's approach to value creation, offer a new and unifying view on strategic management issues and draw attention to different stakeholder groups. Stakeholders exert influence on business models (e.g. by providing or withdrawing crucial resources and capabilities), while they are themselves positively or negatively affected. Value created, ignored, and destroyed (Bocken, Short, Padmakshi Rana, & Evans, 2013; also see Bowman & Ambrosini, 2003) for different stakeholder groups needs to be taken into account, particularly when it comes to sustainability-oriented business models.

Stakeholder integration is one of the four guiding principles for the development of such business models (Breuer, Fichter, Lüdeke-Freund, & Tiemann, 2018), which are sustainability-orientation, extended value creation, systemic thinking, and stakeholder integration. Understanding and adapting to stakeholders' interests becomes a precondition for the successful implementation of sustainability-oriented business models, requiring social responsiveness and cultural competencies (Antoni-Komar, Lautermann, & Pfriem, 2010), especially since these interests are often not evident from the outset. Moreover, future stakeholder groups have to be considered in order to pursue sustainability as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (World Commission on Environment and Development, 1987: 16).

Diverse actors need to collaborate if business pursues a sustainability-orientation (Breuer & Lüdeke-Freund, 2017b; Rohrbeck, Konnertz, & Knab, 2013). Whereas user-centered innovation research tends to focus on existing users and customers, non-users and stakeholders beyond the usual (most influential or powerful) subjects may contribute knowledge, motivations, and values that exceed already given usage situations. Accordingly Hart and Sharma (2004) argue for novel ways of taking responsibility and inclusion of "fringe stakeholders" (poor, weak, isolated or remote, non-legitimate, and non-human) in the search for solutions to social and environmental problems. The aforementioned notion of stakeholder integration (Breuer et al., 2018) must thus also include fringe stakeholders' interests to increase the likelihood of developing sustainability-oriented business models. Adding to this, the organization itself pursues legitimate interests, which are expressed for example in the expectation of improved "business case drivers" (Schaltegger, Lüdeke-Freund, & Hansen, 2012), such as reduced production costs, increased operational efficiency, or an advantage in product and service marketing. Obviously, the strategic management task of developing sustainability-oriented business models is about both identifying an organization's and its stakeholders' interests and aligning these. A values-based

[1]See Part II of this book.

instead of interest-focused view is seen as a promising approach to strategic stakeholder management.

11.2.3 From Strategic Planning to Stakeholder Management

A classic controversy in strategic management contrasts synoptic and incremental approaches to strategic management. Traditional strategic management textbooks and most practitioners still follow a rational planning model (in the tradition of Ansoff, 1965) and prescribe an idealized sequence of strategic management phases and tasks. Meanwhile empirical research (in the tradition of Mintzberg, 1978 and Quinn, 1980) found that organisational practice rarely rigidly follows predefined plans, and attempts to observe and describe empirically what really impacts strategic decision making.[2] Behavioural strategy (Lovallo & Sibony, 2010) has drawn attention to the situated interactions and path dependencies that lead to the formation and interpretation of strategies. Accepting both, the fact that people are subject to bounded rationality and the necessity of negotiations between coalitions of stakeholders leading to compromise, makes the traditional assumption of linear and rational decision making by "Homo Economicus" inappropriate.

The classical model of strategic planning predicts environmental trends (including potential interests of stakeholder segments that constrain operational and strategic options) and adapts strategic measures to exploit the diagnosed position of the firm. This model is replaced, or complemented by, a management approach that "actively plots a new direction for the firm and considers how the firm can affect the environment as well as how the environment may affect the firm" (Freeman & McVea, 2001: 11). Accordingly, in the realm of scenario management, normative scenarios spelling out organisational visions to strive for need to complement an environmental scanning of exploratory scenarios.

Recent frameworks of iterative development, lean management, and business modelling already account for the unreliable nature of plans and deal with dynamic complexity. However, most practical approaches also inherit the narrow focus on economic goals of the shareholder view and neglect the multitude of values that drive stakeholder motivation (Breuer & Lüdeke-Freund, 2017a), such as an orientation towards an ecologically and socially sustainable development of mankind. A values-based view on strategic stakeholder management and corresponding methods can help to differentiate between stakeholder interests as a matter of negotiation and values as notions of the desirable. An accordingly reframed approach to strategic stakeholder management allows accounting for the multitude of cultural, organisational and personal values that can inform normative management and ground personal motivations.

[2]See also Chap. 5.

11.2.4 A Normative Turn and Values Beyond Interests

While moving from a planning to a stakeholder perspective, different global trends and developments in the natural environment (e.g. increasing resource scarcity), societal awareness (e.g. health concerns related to companies' offerings), and legislation (e.g. laws supporting renewable energies) contribute to what could be termed a "normative turn" (Breuer & Lüdeke-Freund, 2017a). This normative turn results from, for example, aggregated changes in customers' and employees' expectations towards companies, and vice versa, which implies a reframing of management frameworks and methods based on a review and codification of values. This turn can also be perceived beyond general management in domains such as innovation management (Breuer & Lüdeke-Freund, 2017a) and stakeholder management (Freeman & Auster, 2015).

Sustainability reporting, publishing information about the economic, environmental, social, and governance performance of companies, which was introduced in the 1980s as a second line of reporting in addition to financial reports, serves as another example of a normative turn in a major management domain. Environmental reporting, a predecessor of modern sustainability reporting, was initially applied by chemical companies to improve their public image. In 2017, a few decades later, a directive by the European Union made sustainability reporting mandatory, which is a way of codifying societal expectations that result from changed values related to environmental, social and governance issues. "The new regulation makes it easier for stakeholders to stay informed on business activities and impacts of companies they engage with" (First Climate, 2018).

Sustainability labels are offensively used in marketing and advertising, responding to changing demands of customers seeking green and fair traded products and services (Peattie & Belz, 2010). Dematerialization and branding have further increased the willingness of customers and workforce to identify not only with a product or service but also with what a company stands for. Digitalisation and new means of communication empower stakeholders and challenge the definitional sovereignty of companies to define their own identity. Not only customers, clients, and employees may question what they are implicitly and explicitly supporting through their purchasing behaviour and their work, but also external interest groups, lobbies, and activists monitor what companies do and what results from their worldwide activities.

11.2.5 Revision of Key Characteristics of the Stakeholder Approach

The aforementioned conceptual and practical developments in the areas of value networks and business ecosystems, business models, and strategic planning together with the observation of an overarching normative turn point illustrate the cross-cutting importance of a stakeholder-oriented approach to strategic management.

Before moving on and proposing a values-based view on stakeholder management, the original assumptions of stakeholder management are summarized. Freeman and McVea (2001: 10–15) define seven distinguishing characteristics of their stakeholder approach which emphasizes "active management of the business environment, relationships, and the promotion of shared interests" (Freeman & McVea, 2001: 10). The stakeholder approach is

1. a single strategic framework that should enable managers to deal with environmental changes without having to adopt strategic frameworks or practices,
2. a strategic management process (rather than planning based on prediction and adaptation) actively giving direction to the firm while considering mutual influences between the firm and its environment,
3. concerned about "survival of the firm" (Freeman & McVea, 2001: 12) by directing a course and integrating and balancing multiple relationships and objectives, rather than optimizing output,
4. identifying and investing in relationships to ensure long-term success based on a shared "set of core values" (Freeman & McVea, 2001: 12) so that all stakeholders remain supportive even if individual stakeholders are negatively affected by individual decisions,
5. descriptive, building on facts and economic, political and moral analysis, and prescriptive (rather than empirical) recommending direction for the firm in a stakeholder environment where relationships are created and influenced,
6. focussed on understanding concrete "names and faces" (Freeman & McVea, 2001: 14) rather than general stakeholder roles, emerging from specific insights rather than descending from general theory, and
7. integrative with respect to different stakeholder perspectives and interests in order to facilitate strategic decision making and manage interests into the same direction.

Even though values are mentioned as a critical element for strategic management and as a requirement for enduring stakeholder cooperation (Freeman, 1984; Freeman & McVea, 2001), the classical stakeholder approach does not sufficiently and consistently differ between values, interests, and benefits. The differences blur, or are at least not made explicit, when the idea of managing business in the "interests of stakeholders" (Freeman & McVea, 2001: 29) or the creation of value (in the sense of benefits) for different stakeholders like employees, customers, suppliers, and financiers are proposed as key to the approach and as a precondition for any successful business. The final sections therefore focus on the implications of a values-based view on stakeholder analysis and management.

11.3 From Negotiation of Interests to Values-Based Management: Concepts and Methods

Even though Freeman and his co-authors have stressed the critical role of values and values-based management for strategic and stakeholder management (Freeman, 1984: 107; Freeman & Auster, 2015; Freeman & McVea, 2001), it has mainly been framed as a negotiation of potentially conflicting interests. Values-based stakeholder management includes, but also moves beyond, the negotiation of potentially conflicting interests. It focuses on values and their potential to engage stakeholders as a basic framing, and enriches established concepts and criteria such as benefits, interests, or attitudes. These related concepts and criteria have to be differentiated in order to prepare a discussion on implications of the values-based view on stakeholder management.

11.3.1 Basic Concepts: Values, Attitudes, and Interests

Following a pragmatist view, **values** can be understood as notions of the desirable and as fundamental criteria for individual and organisational decisions and evaluations (building on e.g. Agle and Caldwell, 1999; Breuer & Lüdeke-Freund, 2017a: 15; Schwartz, 2012). They are not only concerned with social relations and rules for interaction, but also with "what we care about" (Frankfurt, 1988: 80f) and with what is important to an agent. As "strong evaluation" (Taylor, 1989: 4) of second order desires (Frankfurt, 1988) they contribute to the identity of an individual or an organisation, and they are considered as relatively stable. Meanwhile values are not always evident to the beholder, but need to be explored individually, in social interaction and reflection of desirability with respect to scenarios, i.e. alternative paths of personal and environmental development. Although values are generally considered relatively stable, values of an individual (even during later stages in life, see Tokuhama-Espinosa, 2010) or an organisation may also change, for instance if radical changes in the environment occur or new insights put the established system of priorities into a new perspective.

Unlike attitudes and norms, values transcend specific situations and objects and guide attitudes and behaviour, even though "the impact of values in everyday decisions is rarely conscious" (Schwartz, 2012: 4). In contrast to values, **attitudes** are situated and object-specific (Hitlin & Piliavin, 2004). Depending on a specific context, an agent may have different attitudes towards an object while his or her underlying values and system of priorities remains stable.

Likewise, **interests** may change with regard to changing circumstances and developments. Interests may be marginal or slight and do not necessarily indicate a deep commitment. Interests are not always values-laden, but may simply depend for instance on a socio-economic position. What appears as a weakness qualifies interests as a means of political negotiation. Schwarting (2009) argues that political

conflicts of values need to be transformed into a scheme of interests and problems to become negotiable. Schwarting is following Luhmann's (2002: 218f) thesis that conflicts of interests are trivial, as they can be mediated through compromise, payments, threats, or use of violence. In contrast, she claims that religious, ethical, and identity conflicts about non-negotiable values cannot be politicized. It is difficult to grasp that values are considered opaque and unchangeable on the one hand, but can be "transformed" into negotiable interests. This chapter follows an alternative more pragmatist (Joas, 2000, 2001) and constructivist understanding of values as notions of the desirable that do change and may be developed, for instance through conversation and discourse. Nevertheless, the system theoretic thought of rendering values in more tangible ways is one approach to facilitate their exploration and conversation about them to (re)direct the course of an organization.

Regarding the differences between interests and values the following can be concluded: "*Interests may be negotiated, but values need to be developed*. Whereas interests can be negotiated or traded against one another (e.g. the willingness to forego private time with the family because of a new and better paid position within a company), values resist simple negotiation since what we care about defines to some extend who we are (e.g. when private time with the family relates to a fundamental value that is of highest importance for a person). In some cases values-based disputes among stakeholder groups might be resolved by appealing to overarching shared values; in other cases the divergence of values might not be solved but might at least be made explicit in order to accept the difference" (Breuer & Lüdeke-Freund, 2017a: 33).

Similar lines of reasoning regarding interests and values can be traced back to works like those of Khoshkish (1974) who showed how values provide direction to interests. The directive potential of values as shown in Fig. 11.1 resembles the task of strategic management to develop strategic directions and create new business opportunities facing turbulent changes in the environment. Khoshkish (1974, 1979: 72) describes the values system as a framework that justifies differing interests.

"Not only does the value system orient, adjust, and explain the place and domain of different interests, their title to different resources, and the conditions for the attainment of certain goals, but it is in itself the system of those standards ... By

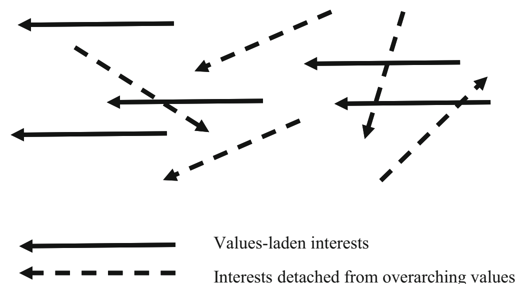

Fig. 11.1 Image adapted from Khoshkish, A. (1974, 1979: 71): Values providing direction to situated interests

converting the functional into the affectional, values justify interests and their discrepancies and attenuate their conflicts. (By the same token, conflicting values enhance interest conflicts.) Interests in general, and sometimes some of them in particular, promote values. Of course, not all interests are value-laden. The difference between values and interests resides in their intensity and the possibility of their attainment. Values are more intense and less negotiable. Interests compromise and negotiate on their way towards their ends."

From the viewpoint of evident economic interests it appears reasonable for companies to circumvent legislation in order to avoid taxation, or to push harmful technologies onto markets. Even emission tests with humans who agree to such tests based on their own financial interests seem to be justifiable, but in the end, such action is judged by stakeholder groups based on their values. Values need to drive any strategic decision-making that reaches beyond the day and its short-term profit. This is partly also reflected in Freeman's original framework: "Corporate survival depends in part on there being some "fit" between the values of the corporation and its managers, the expectations of stakeholders in the firm and the societal issues which will determine the ability of the firm to sell its products" (Freeman, 1984: 107).

Pragmatic managers may wonder if values are maybe too "soft" to be dealt with by strategists who have to deliver in the "hard" currency of financial success. Case studies exemplify the mutual impact of financial success and stakeholder values. While the case of the Tata Nano, a low-priced automobile for the Indian mass market, shows how missing values-based stakeholder integration can substantially contribute to financial losses and market failure, the IBM ValuesJam showcases how a global online conversation about organisational values can engage stakeholders in strategic management, strengthen corporate culture, and drive normative innovation and organisational renewal.

11.3.2 How Interests Fall Short: The Case of Tata Nano

Tata Group of Industries and its chairman Ratan Tata have been acknowledged for their values-based response to the 2008 terrorist attack on the Taj Mahal Palace Hotel (Freeman & Auster, 2015: 122f). A welfare trust and outreach centers for employees were established right after the disaster, mentors and substantial financial aids were granted to the families of victims. However, such responsibility, respect and support for stakeholders was not demonstrated in managing Tata Motors' prestige project to build the Tata Nano. The Tata Nano (case study of Breuer & Upadrasta, 2017) was once announced as the cheapest car in the world with the intention to provide an affordable and safe means of mobility to Indian "scooter families", i.e. families who depend on small, often unsafe motor cycles. In spite of successful engineering, the Nano created continuous and significant financial losses until its production in India was expired.

A review of Tata's documents (Chacko, Noronha, & Agrawal, 2010) suggests that the project was managed considering stakeholder interests, but ignorant of the

values that later turned into articulated, opposing interests, and even violent protests against the manufacturing plant. The case (Breuer & Upadrasta, 2017) demonstrates the necessity to manage product innovation, how to market new products, and strategic decisions about production sites. Substantial parts of the financial loss resulted from the ambitious initiative to provide affordable safety for the mobility needs of the less prosperous Indian population by building the cheapest car in the world. While there was some awareness to potentially conflicting stakeholder interests, the project suffered from the persistent ignorance about the values of customers and local populations at new production sites.

The factory was intended to spur regional development and to become "an advertisement for its [Tata Motors] competence and capabilities, its values and way of functioning" (Chacko et al., 2010: 75), but welcoming gestures from regional stakeholders came along with offense and violent protest from others. As one of the managers recalled, "we did not know what the real situation was inside the villages" (c.f. Chacko et al., 2010: 77). This can be interpreted as an indicator for a form of stakeholder management that did not reach beyond the evident, articulated interests, and therefore remained incapable to grasp what the local population actually cared about. Missing awareness of regional stakeholder values paved the way to the formation of an opposition and escalating violence in the fight against the new factory. In the end the fully built plant had to be taken down and reconstructed 2000 km away from the original location. Furthermore, not knowing what the target group cared about (for instance a prestige object rather than a "poor man's car", and casual encounter rather than upmarket showrooms as a point of sale) contributed to market failure.

The case of the Tata Nano (Breuer & Upadrasta, 2017) shows how different business model components such as production infrastructures and marketing strategies need to be aligned with stakeholder values and the overarching purpose of business activities, here, providing safe and affordable mobility to less privileged target groups. Values-based stakeholder management can contribute to creating value for the company, its customers and society, and likewise make the difference between success and failure of strategic management.

11.3.3 Exemplary Case of Inclusive Formats: IBM ValuesJam

The founder of IBM, Thomas Watson, declared three basic beliefs in 1914, namely "respect for the individual", the "best customer service" and the "pursuit of excellence". These basic beliefs are reported to have helped guide the company through years of substantial change and reinvention, and even severe crises. In 2003, IBM's CEO Samuel Palmisano initiated a project to review the company values and to derive measures for strategy and innovation. Acknowledging that a top-down decree of values would not work in a company of more than 300,000 employees in

170 countries, he decided for a bottom-up approach. IBM employees were asked to contribute to a "ValuesJam" on the corporate intranet. (The case is discussed in more detail in Breuer & Lüdeke-Freund, 2017a.)

Through surveys and focus groups with employees from different levels, functions, and locations three new values statements were formulated as basic input for the ValuesJam: "commitment to the customer", "excellence through innovation", and "integrity that earns trust". Online discussions ran for 72 hours and about 50,000 employees checked into the discussion and contributed more than 10,000 comments (Palmisano, 2004: 61). Resulting data was enriched with surveys before and after the jam. Postings were analyzed through a specially tailored tool—"The Jamalyzer"—and reading of all contribution transcripts by a small project team.

Emerging themes included critique on the silo mentality among business units. The statement regarding integrity and trust was considered as being too inwardly focused on the relation between managers and employees. New corporate values resulted:

- "Dedication to every client's success,
- Innovation that matters—for our company and the world,
- Trust and personal responsibility in all relationships."

In the following, gaps between current practices and the set of new values were identified. IBM learned some surprising lessons. One of the surprising results of the ValuesJam was the employees' awareness of the company's contributions to society at large, as David Yaun, at that time Vice President of IBMs communications programs, remarked: "We'd never considered how strongly people feel about IBM's role in shaping the modern world and their pride in the fact that our technology helped man get to the moon..." (Yaun, 2006).

The years to follow turned out to be some of the most successful in the history of the company. While it continued to change its business model towards services and consulting, it also continued to be the world leader in number of US patents, and became acknowledged as one of the worldwide leading brands. While several factors contributed to this success, including a global engagement in growth markets, Palmisano attributes part of this success to the ValuesJam: "Instead of galvanizing people through fear of failure, you have to galvanize them through hope and aspiration. You lay out the opportunity to become a great company again . . . And you hope people feel the same need, the urgency you do, to get there. Well, I think IBMers today do feel that urgency. Maybe the jam's greatest contribution was to make that fact unambiguously clear to all of us, very visibly, in public" (Palmisano, 2004).

The ValuesJam represents an approach to strategic stakeholder management that focuses on employees as a crucial group of internal stakeholders. Instead of seeing employees just as those who do their job with and for the company, they were asked to help in renewing IBM's corporate culture and normative foundations. It became apparent that "IBMers" are dedicated to their clients' success and the company's innovation performance and that these values are not only helping to integrate IBM's internal stakeholders, but that they also motivate a values-based shift in the way the company addresses the market and its customers, as Yaun (2016) confirmed: "It

allowed us to invest differently in the type of relationship we were going to have with the people who bought goods and services from us . . . This shift in mind set was really, really important."

11.4 Impact and Conclusions for Stakeholder Management

Stakeholder management implies a shift from shareholder benefits as primary objective of an organisation to the consideration of diverse stakeholder groups. This requires a situated analysis and an iterative approach to defining and carrying out appropriate measures to adequately integrate stakeholder considerations in management tasks and activities. The shift from negotiation of interests to values-based management suggests several implications and leads to shifts in classical and current debates in strategic management. New methods are required to adequately engage and integrate stakeholders in strategic decision making without compromising the operational abilities of companies, or even increasing their agility.

In this section the impact of these two shifts for strategic management is discussed. The first shift leads to the primacy of stakeholder management and the second to a values-based view on stakeholder management. Three forms of stakeholder management are distinguished (Sect. 11.4.1), followed by a discussion of how to clarify and develop stakeholder values (Sect. 11.4.2) and exemplified by how to reframe and adapt methods of analysis and management. Concluding remarks (Sect. 11.5) line out issues for future research and argue for a shift from focussing on short-lived attitudes and interests to long-term objectives.

11.4.1 Values-Based Stakeholder Management

The previous discussion made the case for a shift from treating stakeholder groups as a constraint to business operations and strategy in the corporate planning tradition, to actively engaging stakeholders as "complex and multifaceted individuals" (Freeman & McVea, 2001: 6) and carefully managing the various relationships to them. A corresponding difference distinguishes traditional, retrospective market research (e.g. based on surveys and focus groups) from future-oriented approaches, actively engaging customers, and non-customers in co-creative activities enabling a high level of interaction and learning (Steinhoff & Breuer, 2013). With respect to stakeholder theory, Hörisch, Freeman, and Schaltegger (2014) pick up a differentiation by Donaldson and Preston (1995) between a descriptive/empirical, instrumental, and normative focus of stakeholder research and theory. While some theorists examined empirically how companies are managed and how they identify relevant stakeholders, instrumental approaches examine the impact of stakeholder management on achieving given objectives (such as increasing revenues or capturing knowledge). Normative accounts reflect upon the inevitable ethical dimension in

managing stakeholder relations and stress the normative dimension in defining corporate objectives and purpose. Acknowledging the different research traditions Hörisch et al. (2014) argue for an integrative research approach that works with the inextricable links between the three lines of theorizing. A values-based approach to managing stakeholder relations can follow up on these differentiations, but focuses on the practices that an organisation applies to deal with stakeholder values.

For strategic management, Harrison and St. John (1997: 14) distinguish buffering from bridging activities. Buffering represents the traditional approach of creating barriers or buffers to reduce negative stakeholder impacts through measures such as traditional market research, public relations and advertising, and compliance with regulation. Bridging represents a proactive approach to form relationships, seek mutual benefits, and even shared values and reinforce mutual interdependence (also called stakeholder *engagement* rather than management, e.g. Andriof & Waddock, 2002).

Combining the approaches of buffering versus bridging with the three management levels of instrumental, strategic, and normative management (section 1) three practices of managing stakeholder relations in organisations can be distinguished: defensive (preparing against potential aversive developments and mitigating risks), integrative (actively involving stakeholder interests and values in strategic decisions), and overarching (collaborative development of future oriented values).

- **Defensive**: “Buffering” the negative effects of the relevant environments leads to defensive forms of stakeholder management with a focus on capturing and addressing stakeholder interests, mainly through means of market research and marketing instruments. Knowing the relevant interests in the business environment is essential to address customer concerns, to avoid proxy wars of NGOs criticizing questionable practices, to prepare for upcoming regulation or to mitigate protests from harmed individuals. Oftentimes third party professionals are hired in order to conduct research on defined customer and stakeholder segments, and to install instrumental measures to mitigate risks and fight external threats.
- **Integrative**: “Bridging” leads to strategic partnerships between a company and its stakeholders. Stakeholders, as individuals or representatives, are engaged across the whole range of strategic management decisions and are not limited to advertising, PR and marketing. They can also be involved in issues, for instance, of segmentation, innovation management, and organisational development. Since not everyone can be involved, one essential concern of this approach is to ensure the quality of stakeholder representatives and their contributions, assuring independent and qualified intermediaries. The challenge involves ensuring that intermediaries are knowledgeable, capable, and willing to speak up for the unheard stakeholders they represent. Stakeholder interests, but also more far-reaching values are considered to achieve strategic advantages and competitive differentiation (e.g. positioning a brand).
- **Overarching**: Normative management is set to ensure the survival of a firm by providing reliable orientation and direction in a dynamically changing environment. Values provide an overarching direction and situated relief from frustrations due to heterogeneous and potentially conflicting interests. Making sense of

the organisation and its environment and providing a cause for anyone involved, values-based stakeholder management is less of a complex processing of distributed stakeholder needs, interests, and values, but rather the process of developing shared values, articulating values-based directives (e.g. in the form of vision, mission, and purpose statements), and cultivating values as such. Reaching beyond currently diagnosed stakeholder interests and their mediation, values-based stakeholder management is about the collaborative formation of future-oriented values that direct the development of the company as well as what it stands for in the present and in a desirable state of the world that it engages for.

Even though values matter for each of these forms of stakeholder management, their impact and potential increases as we are moving from the instrumental to the strategic and finally the normative management level. As seen in the case of the Tata Nano, even for rather instrumental decisions, such as where and how to build a plant and how to market a new product, initially hidden values may turn into adverse interests that should be anticipated ex ante and during business development processes to avoid misled investments and negative stakeholder value impacts (Dreyer, Lüdeke-Freund, Hamann, & Faccer, 2017). For strategic decisions of business model development or brand positioning not only brand values are to be communicated, but, stakeholder values must be uncovered and integrated and its potentials for business model innovation must be considered. Finally, as part of society, seeking a contextual identity and a "sense of mission", actively engaging stakeholders and developing a normative foundation based on heterogeneous stakeholder values becomes indispensable. However, in each case stakeholder values may not be evident from the outset.

11.4.2 Clarification of Stakeholder Values

Values-based stakeholder management requires a review, clarification, and ongoing development of values of different stakeholder groups (Breuer & Lüdeke-Freund, 2017a; Freeman & Auster, 2015): Clarification of shared or divergent values, creative collaboration, and conversation become an equally important part of stakeholder management, as the negotiation of interests already is.

Values are not always evident to their beholders. Even on a personal level, serious efforts from in-depth reflection and introspection to professional coaching and inquiry may be required to understand what one actually cares about. From the viewpoint of a workgroup we may not only question in how far specific activities or projects support or prioritize associated values, but also in how far a shared understanding of these values has actually been established. Values can be explored through individual reflection on what one cares about, through collaborative efforts, as in the IBM ValuesJam described above, or even advanced empirical research methods (see Breuer & Lüdeke-Freund, 2017a: 187–191 on the ethnographic exploration of values). Methods to unveil customer preferences through social research,

futures research, and human-centred design may be re-purposed to focus on stakeholders and values.

Even if individual and organisational values are known and accepted upon, alignment between the two will remain temporarily. Companies strive to achieve such alignment or "value fit" through values-based recruiting of new staff, through internal marketing and incentive systems. To not just represent, but actively engage stakeholders in meaningful encounters, Freeman and Auster proposed a "Values through Conversation" approach (Auster & Freeman, 2013; Freeman & Auster, 2015). This approach emphasizes the process over the content of stated values, and suggests applying four types of "values conversations" as a basis for reflection and critical debate. First, introspection is used to question habitual routines, processes, norms, and paradigmatic assumptions. Benefits of such examinations of organizational values and purposes include "breakthrough insights, learning, avoiding reinventing the wheel, sharing best practices, and time for restoration and renewal" (Auster & Freeman, 2013: 42). Second, historical inquiry may uncover path dependencies including phenomena such as purpose or mission drift. Third, reviewing "connectedness values" (Auster & Freeman, 2013: 44f) directs attention to social relations, leadership styles, and processes among internal and external stakeholders. Finally, conversation on aspirational values focuses on how a greater good makes a positive difference to stakeholders and provides the living basis for vision, mission, and purpose statements that normative management is concerned with. Auster and Freeman (2013: 47; in reference to Wheeler & Sillanpää, 1997) highlight companies such as Whole Foods Markets and Johnson and Johnson as examples for companies that "incorporate broad value creation for multiple stakeholders on multiple levels including customers and employees, and shareholders and also expanding that stakeholder network to include the greater good—other living and non-living species, future generations, and the viability of the planet".

11.4.3 Integration of Stakeholder Values in Strategic Management Methods

Accounting for a multitude of actors and associated values that impact normative and strategic management requires a values-based reframing of strategic management methods. Different formats from simple workshops to regular retreats and continuous online formats are used to stir up and channel such conversations. Methods like values-based business modelling can help to translate values into the identification and utilization of new business opportunities.

Applying a values-based view each of four constitutive steps in a stakeholder management process is taken in a slightly different manner:

1. Any kind of stakeholder management needs to identify stakeholders, e.g. by mapping everyone who may contribute or could be affected. Values-based **identification** will include stakeholders pursuing the same values, purpose,

mission, or vision (for instance, pursuing sustainable individual mobility, sustainable energy providers will be identified as a potential strategic partner). The World Health Organisation became a partner for Indian Aravind's eye care hospitals who are not limiting themselves to the strategic aspiration to provide best-in-class eye-care, but follow their values-based mission of eradicating needless blindness. A company dedicated to pro-environmental values might ally with suppliers and partners following similar normative orientations, even if competitors within the same industry are part of such a coalition, like the sustainable apparel coalition (apparelcoalition.org).

2. To reduce complexity, stakeholders need to be **prioritized** with respect to their importance for a project or strategy. A typical approach is mapping stakeholders by attitude, distinguishing between allies, neutral stakeholders and opponents, or creating portfolios with respect to criteria such as influence, conflict potential, or positive and negative attitude towards a project. Values-based prioritization takes shared values into account, therefore reaching beyond the consideration of object-specific and context-dependant attitudes. An innovation project that is dedicated to enhance privacy in online encounters may prioritize its interpretation of such a value (see Breuer & Lüdeke-Freund, 2017a, 189f on different notions of privacy) against competing values of usability or accessibility. The attention of project protagonists will be drawn to actors or alliances (such as the online privacy alliance, www.privacyalliance.org) that share their striving for the same notions of what is desirable, even if those actors are outside their previously established frame of reference. An organisation conducting a ValuesJam will follow up the redefinition of its values by screening, engaging with and providing resources to those employees that are willing to put the new values set into practice. In the case of IBM "dedication to every client's success" (IBM, 2018) was an essential corporate value that resulted from the Jam, prioritizing long-term client relationships over transactional ways of dealing with customers. "It allowed us to invest differently in the type of relationship we were going to have with the people who bought goods and services from us" (Yaun, 2016; cf. Breuer & Lüdeke-Freund, 2017a: 82). A hundred million dollar "bet on trust" project was issued, enabling managers to flexibly address client requests through an annual budget of 5000 dollar.
3. **Analysis** of stakeholder goals to be addressed in a project or strategy will review and explore stakeholder values (as second-order desires) in addition to immediate goals, interests, needs, or desires. Business anthropological methods of contextual inquiry and participating observation may help to unveil stakeholder values in critical situations like the one described in the Tata Nano case above. Besides, attending to values in addition to interest enables building an effectual network of self-selected stakeholders (Sarasvathy, 2008) that commit to and engage for a new project or strategy.
4. **Observing** stakeholders and iteratively reviewing intermediate results of stakeholder analysis and engagement, values provide a reference for mid-term and long-term observation of the stakeholder ecosystem, values, and interests to be addressed. Managing impact and even unintended consequences becomes key.

Notions of the desirable impact strategic management decisions and the probability of their success as well as any form of stakeholder interaction. However, deliberately managing and engaging stakeholders based on their values is never all or nothing. Companies may experiment first with consulting stakeholder advisory boards before integrating their contributions as constitutive moments of strategic decision-making. During such experimentation, quantitative impacts will be hard to measure, but cultural sensitivity for how a company maintains and manages its purpose in spite of changing environments, might convince top management to further pursue values-based stakeholder management.

11.5 Conclusions

Moving towards values-based stakeholder management requires a double-shift in perspective. The first shift leads to the primacy of stakeholder management, i.e. an understanding of management as being concerned about *all* relevant stakeholder groups and the effects they have on a company's business activities, and vice versa. The second shift leads to a values-based view on stakeholder management. Values, other than situational attitudes or short-lived interests, represent the fundamental notions of the desirable of an organisation or individual and thus the most fundamental level on which companies can get into contact with their stakeholders. Values-based stakeholder management is about identifying and actively working with the values systems of a company, its members and all other stakeholders. Moving from interests, which is the typical notion applied in stakeholder management in theory and practice, to values requires a maybe radical but definitively worthwhile effort. A values-based approach to stakeholder management ensures that not only short-lived attitudes and interests, and the best deal that bilateral negotiators may get, determine the course of strategic decisions. Instead, it reinforces long-term orientations taking hold. It also increases the chances that business models become viable in the long run and cater to what we care about, including the future generations that inherit some of these values while they develop their own culture.

The shift to values-based stakeholder management builds on several conceptual distinctions and has some methodical implications. This chapter proposed three forms of stakeholder management (defensive, integrative, and overarching), discussed how to clarify and develop stakeholder values (e.g. by means of ongoing "values conversations"; Freeman & Auster, 2015) and exemplified that methods of stakeholder analysis and management must be reframed and adapted (e.g. as an element of values-based business modelling; Breuer & Lüdeke-Freund, 2017a). Altogether, these aspects provide a sketch of a new framework to stakeholder management from a values-based point of view.

While strategic managers might interpret the implications of this new framework (such as reframing existing methods) as a burden or additional effort without any gain, the values-based view accentuates the enabling potentials of values rather than restrictive or limiting implications. The case of IBM illustrates that identifying and

making transparent the values of an organization and its members does not only serve purposes of internal alignment, but can directly translate into new strategic approaches in terms of how a company sees and addresses its customers and pursues innovations that matter to both employees and customers. IBM's ValuesJam and the values conversations it motivated were thus motivating a shift in perspective on the company's most important stakeholders, its employees and customers, and were also stabilizing this very large and globally acting company while it was on a transition to become a service and consulting corporation.

This and further cases, as well as what we already learned about values-based innovation management (Breuer & Lüdeke-Freund, 2017a), illustrate that stakeholders are not inhibitors but facilitators of future-oriented corporate development. Values-based stakeholder management is a means to activate these facilitators for the sake of companies and society.

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