

FOCUS ON ALL STAKEHOLDERS GLOBALLY

By Tomas Hult

Executive Briefing: Market orientation has been in vogue since the late 1980s but is it really the preferred way of operating internationally? Not really! Outside the U.S., firms need to focus on a number of stakeholders beyond customers and shareholders?

“Our reputation is built on the trust and confidence of all our stakeholders and is one of AstraZeneca’s most valuable assets” (Sir Tom McKillop, CEO, AstraZeneca, www.astrazeneca.com, February 1, 2007).

 As illustrated in the quotation, the idea that firms need to focus on multiple stakeholders is now widely embraced. Interestingly, this widespread recognition of stakeholder interests is, at least partially, a function of the recent series of corporate scandals and ethical lapses of some firms. Some would argue that these firms ran into trouble because of their business strategies which were focused solely on the creation of short-term shareholder value.

The stakeholder perspective was first introduced in the 1980s to explain why businesses have responsibilities beyond the maximization of shareholder value to include the interests of non-stockholding agents. Stakeholder issues include corporate *activities* and effects thereof that are of concern to one or more stakeholder groups. Examples include the fairness of product information, gender discrimination, employee compensation, transparency of company reports and audits, and the environmental impact of products.

Given the corporate scandals in the last decade coupled with a focus on customers as the primary (and often sole) stakeholder group, the well-established concept of market orientation has become limiting as a way to explain how firms achieve superior performance. With its primary focus on customers, market orientation ignores other critical stakeholders (e.g., employees, shareholders, suppliers, regulators, and local communities) that are very influential globally (in particular outside the U.S. marketplace).

This broadening of the study of market orientation to a focus on a set of six stakeholders has important implications for firms. For example, Wal-Mart, the world’s largest retailer, may have maximized its customer orientation but now needs a stakeholder orientation to continue achieving superior performance. Wal-Mart is currently confronted with 8,000 lawsuits, including 33 punitive class action suits. The company has become the focus of a national anti-sprawl movement, bringing together environmentalists, local businesspeople, and residential homeowners. Wal-Mart purchases the majority of its merchandise from overseas factories that often

require employees to work as many as 80 hours a week. While a strong market orientation has fueled Wal-Mart’s growth to this point, a strong stakeholder orientation may be needed to navigate present difficulties and pre-empt future challenges.

Research Study

Cross-sectional data on 151 firms drawn from the Dun and Bradstreet directory were used to examine stakeholder orientation, market orientation, and business outcomes. The outcomes studied include market performance, financial performance, reputation, and employee commitment.

Qualitative analysis of the web pages of 100 of the *Fortune 1000* firms; input from 15 scholars with an expertise in the fields of market orientation and corporate social responsibility; focus group analysis involving 26 graduate students in executive MBA programs; and field interviews with 24 business executives complemented the quantitative testing.

The testing consisted of confirmatory factor analysis for the measures and hierarchical multiple regression analysis to examine the competing effects of market- and stakeholder orientations against each other on the business outcomes.

Three forms of testing was done: (1) traditional unweighted regression analysis, (2) sample weighted analysis, and (3) case weighted analysis. In the sample weighted analysis, the coefficients for each stakeholder group were weighted based on the relative importance placed on each stakeholder group by the firms in the sample. In the case weighted analysis, the coefficients for each stakeholder group were weighted based on the relative importance placed on each stakeholder group by each firm in the sample.

A Stakeholder View is Better

Both the qualitative and quantitative investigations provide support for the importance of adopting a stakeholder orientation (SO) in firms. SO behaviors – comprised of intelligence generation, intelligence dissemination, and responsiveness – were similar across the six stakeholder groups (i.e., customers, suppliers, employees, regulators, community, and shareholders). SO behaviors are associated positively with market and financial performance, reputation, and employee

commitment in nine of the twelve models tested. The importance placed on each stakeholder can be seen in the Figure.

These results include all of the unweighted and sample-weighted models and the financial performance equation in the case-weighted model. Importantly, SO behaviors outperform market-oriented behaviors in explaining market- and financial performance in both the unweighted and sample-weighted models as well as outperform market orientation on reputation and employee commitment in the unweighted models. The obvious implication is that caring for a wider array of stakeholders than customers will translate into increased performance on important outcomes.

The results of the sample-weighted models are particularly interesting in that they provide a level of “generalizability” above that of the other tests. The sophisticated, cutting-edge analysis of the sample-weighted models shows that the important effects of stakeholder orientation are generalizable across a variety of firms. But the “old-fashioned” traditional approach used in the unweighted models also clearly shows that stakeholder orientation outperforms market orientation for all outcomes. Both of these methods indicate that a holistic approach to stakeholders is preferred over one that favors customers.

The findings also encourage leaders to coordinate activities aimed at generating, disseminating, and responding to intelligence about a variety of stakeholders. These activities (e.g., satisfaction surveys, information bulletins, and specific initiatives aimed at tackling stakeholder issues) are usually managed by individual departments that are more or less in charge of a specific stakeholder group (e.g., marketing for customers, purchasing for suppliers, human resources for employees, investor relations for shareholders).

Importantly, across departments similarity exists in firm practices to keep aware of and address the demands of the various stakeholders. By combining the SO practices of an organization’s functional departments, businesses would become able to manage and act upon stakeholder information much more systematically and efficiently. ♦ [gBR Article 01-03](#), Copyright © 2007.

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Importance Placed on Stakeholders Globally

