

CHAPTER 1

THE CORPORATION AND ITS STAKEHOLDERS

INTRODUCTION

Business corporations have complex relationships with many individuals and organizations in society. The term *stakeholder* refers to all those that affect, or are affected by, the actions of the firm. An important part of management's role is to identify a firm's relevant stakeholders and understand the nature of their interests, power, and alliances with one another. Building positive and mutually beneficial relationships across organizational boundaries can help enhance a company's reputation and address critical social and ethical challenges. In a world of fast-paced globalization, shifting public expectations and government policies, growing ecological concerns, and new technologies, managers face the difficult challenge of achieving economic results while simultaneously creating value for all of their diverse stakeholders.

PREVIEW CASE

Amazon.com

Teaching Tip: Preview Case Video

The Amazon example that opens the chapter illustrates the challenges of managing successfully in a complex global network of stakeholders. It may also be used to illustrate how different stakeholders may perceive a corporation differently, depending on their vantage point. Instructors may wish to introduce a discussion of the opening example with a short video profile of the company: "How Big Is Amazon?" (WCDaily, March 18, 2021, www.youtube.com/watch?v=SWjpbcbFJII&t=18 (4:06 minutes)).

This can be followed by prompts, such as:

- Do you personally like or dislike Amazon? Why?
- What groups have been helped by Amazon, and what groups have been hurt?

The instructor can then build on student comments on groups that have been helped or hurt when introducing the concept of stakeholder later in the session.

CHAPTER OUTLINE

I. BUSINESS AND SOCIETY

A. A Systems Perspective

II. THE STAKEHOLDER THEORY OF THE FIRM

A. The Stakeholder Concept

B. Different Kinds of Stakeholders

III. STAKEHOLDER ANALYSIS

A. Stakeholder Interests

B. Stakeholder Power

C. Stakeholder Coalitions

D. Stakeholder Mapping

IV. THE CORPORATION'S BOUNDARY-SPANNING DEPARTMENTS

V. THE DYNAMIC ENVIRONMENT OF BUSINESS

I. CREATING VALUE IN A DYNAMIC ENVIRONMENT

GETTING STARTED

KEY LEARNING OBJECTIVES

LO 1-1: Understanding the relationship between business and society and the ways in which business and society are part of an interactive system. (pp. 4-5)

Business firms are organizations that are engaged in making a product or providing a service for a profit. Society, in its broadest sense, refers to human beings and to the social structures they collectively create. Business is part of society and engages in ongoing exchanges with its external environment. Together, business and society form an interactive social system in which the actions of each profoundly influence the other.

LO 1-2: Considering the purpose of the modern corporation. (pp. 5-6)

According to the stakeholder theory of the firm, the purpose of the modern corporation is to create value for all of its stakeholders. To survive, all companies must make a profit for their owners. However, they also create many other kinds of value as well for their employees, customers, suppliers, communities, and others. For both practical and ethical reasons, corporations must take all stakeholders' interests into account.

LO 1-3: Knowing what a stakeholder is and who a corporation's market and nonmarket and internal and external stakeholders are. (pp. 6-11)

Every business firm has economic and social relationships with others in society. Some are intended, some unintended; some are positive, others negative. Stakeholders are all those who affect, or are affected by, the actions of the firm. Some have a market relationship with the company, and others have a nonmarket relationship with it; some stakeholders are internal, and others are external.

LO 1-4: Conducting a stakeholder analysis and understanding the basis of stakeholder interests and power. (pp. 11-18)

Stakeholders often have multiple interests and can exercise their economic, political, and other powers in ways that benefit or challenge the organization. Stakeholders may also act independently or create coalitions to influence the company. Stakeholder mapping is a technique for graphically representing stakeholders' relationship to an issue facing a firm.

LO 1-5: Recognizing the diverse ways in which modern corporations organize internally to interact with various stakeholders. (pp. 19-20)

Modern corporations have developed a range of boundary-crossing departments and offices to manage interactions with market and nonmarket stakeholders. The organization of the corporation's boundary-spanning functions is complex. Most companies have many departments specifically charged with interacting with stakeholders.

LO 1-6: Analyzing the forces of change that continually reshape the business and society relationship. (pp. 20-22)

A number of broad forces shape the relationship between business and society. These include changing societal and ethical expectations; a dynamic global economy; redefinition of the role of government; ecological and natural resource concerns; and the transformational role of technology and innovation. To deal effectively with these changes, corporate strategy must address the expectations of all of the company's stakeholders.

KEY TERMS

boundary-spanning departments

business

external stakeholder

focal organization

general systems theory
interactive social system
internal stakeholder
shareholder theory of the firm
society
stakeholder
stakeholder analysis
stakeholder coalitions
stakeholder interests
stakeholder (market)
stakeholder (nonmarket)
stakeholder map
stakeholder power
stakeholder salience
stakeholder theory of the firm

INTERNET RESOURCES

www.economist.com	<i>The Economist</i>
www.fortune.com	<i>Fortune</i>
www.nytimes.com	<i>The New York Times</i>
www.wsj.com	<i>The Wall Street Journal</i>
www.bloomberg.com	<i>Bloomberg</i>
www.ft.com	<i>Financial Times (London)</i>
www.cnnmoney.com	<i>CNN Money</i>

DISCUSSION CASE

TIPPING POINT AT UNION SQUARE HOSPITALITY GROUP

Discussion Questions

1. What is the focal organization in this case, and what decision did it make?

The chapter defines a focal organization as the organization from whose perspective a stakeholder analysis is conducted. In this case, the focal organization is the Union Square Hospitality Group (USHG), an operator of upscale restaurants in New York City and Washington DC. The decision faced by its CEO, Danny Meyer, and his management team was whether to reintroduce tips for its servers when their restaurants reopened following the first wave of coronavirus closures in 2020. Five years earlier, USHG had eliminated tips, replacing them with a “hospitality included” policy.

2. List the four kinds of tipping mentioned in this case. If you worked in a restaurant, which kind of tipping would you support, and why? If you were a customer in a restaurant, which kind of tipping would you support, and why?

Four kinds of tipping are mentioned in the case. These are:

- 1) *Direct tipping*: Customers tip their servers (waiters and waitresses) directly, and the servers keep their own tips. (This kind of tipping was historically widespread in full-service restaurants in the United States.)
- 2) *Tipping out*: Servers voluntarily share their tips with bussers, hosts, cooks, and others who help them during their shifts.
- 3) *Pooled tipping*: The employer pools (collects) all tips and service charges at the end of a shift and then redistributes them to all employees, according to an equitable formula. (The National Restaurant Association supported this type of tipping.)
- 4) *Hospitality included*: Customers are not allowed to tip. Instead, menu prices are raised across the board to cover increased compensation for all employees.

Teaching Tip: USHG

When USHG first introduced a “hospitality included” policy in 2015, Danny Meyer appeared on several media outlets to explain the change. For example, he appeared on CBS Mornings in this 4:39 minute clip:
www.youtube.com/watch?v=h3B2-SLRBQ

Students might answer the second and third parts of the question in several ways. A sample response follows:

If I worked in a restaurant, I would probably support whichever type of tipping produced the highest compensation. That would depend on my role. If I were a server, I would probably

support keeping my own tips, because tips can as much as double a server's pay. If I were a back-of-the house worker, such as a cook or busser, I would probably support some type of shared tip policy, such as tipping out or pooled tipping, so I could receive a portion of customers' tips. I might also support a hospitality included policy if it raised my compensation more than the other types.

If I were a customer in a restaurant, I might have mixed feelings about tipping. On one hand, I would want to be free to reward my waiter or waitress for excellent service (or punish them for poor service by lowering or withholding my tip). On the other hand, I might also be concerned that direct tipping was not fair to others on the staff who had served me indirectly, such as the chefs, leading me to support a tipping out or pooled system. I might prefer a hospitality included policy, since it would take away the hassle of thinking about and calculating a tip after my meal. It might also make me feel good, because this approach would more fairly compensate the back-of-the house workers. But a hospitality included policy might cost more.

- 3. Identify the stakeholder groups that will be impacted by Meyer's decision to reintroduce tips. For each, identify its interests and power, with respect to tipping policy. (Note: Some stakeholders may have different segments, with varying interests and power.)**

Teaching Tip: USHG

This question can be addressed using board work, with a full class discussion, as shown. Alternatively, students groups may be assigned specific stakeholders and asked to identify their interests and power.

STAKEHOLDER	INTERESTS	POWER	NOTES
Employees: front-of-the house	Highest possible compensation; freedom from harassment or discrimination by customers	To quit and take a job somewhere else. To share or not share tips in a "tipping out" system. To provide variable levels of service to customers to attract higher tips.	Power is quite high, particularly in a tight job market.
Employees: back-of-the-house	Highest possible compensation	To provide excellent support to the servers, to encourage them to share their tips in a	Power is quite low for low-skilled B-of-H workers, e.g., dishwashers. May be higher for skilled

<i>STAKEHOLDER</i>	<i>INTERESTS</i>	<i>POWER</i>	<i>NOTES</i>
		tipping out system.	workers, e.g., chefs.
Customers	Best possible service; good value	To tip generously or not; to withhold tips. To patronize a restaurant or not.	Power is high because customers can decide what restaurants to patronize and how much to tip (except under hospitality included policies).
Community	Good paying jobs; tax revenue	To influence government to enact legislation governing tipping policies.	Issue may be of low salience to community members.
Suppliers	Regular orders; to be compensated fairly	To refuse to supply, e.g., food or kitchen equipment.	Suppliers are unlikely to be aware of tipping policies.
Investors	Profitability; high returns on investment	To sell stock and invest in other companies	Investors are unlikely to be aware of tipping policies.

4. If you were in Meyer’s position, what tipping policy would you support to best meet the needs of all the company’s stakeholders? What steps should the USHG management team take to implement this approach?

USHG CEO Danny Meyer had a clearly articulated philosophy of “enlightened hospitality”—meeting the needs of all USHG’s stakeholders. He prioritized these stakeholders as follows: employees, guests (customers), community, suppliers, and investors. He strove to adopt policies that made “the math add up for all stakeholders,” in other words, to meet all their interests—although he acknowledged this “was never easy.” The fact that USHG had experimented with several types of tipping policy over the years suggested that Meyer and his team did not find it obvious which one would best meet all stakeholders’ needs. The management team’s challenge was made more complex by laws in New York state (where many USHG restaurants were located) that prohibited any sharing of tips with workers who did not spend at least 80 percent of their time interacting with customers (seeming to exclude pooled tipping policies that included back-of-the-house workers, e.g., cooks and dishwashers) or mandatory service charges (which could potentially conflict with a hospitality included policy).

Students may respond to this question in several ways. Many students will argue that the best approach in 2020 would be to return to direct tipping by customers and to encourage servers to engage voluntarily in “tipping out” according to collectively determined rules. Direct tipping would meet most customers’ expectations, keep menu prices lower, and help

attract and retain wait staff during the coronavirus pandemic. This approach would avoid potential legal challenges to pooled tipping and service fees. At the same time, USHG could join others in the restaurant industry to lobby for changes in the law that would permit pooled tipping, to enable employers to redistribute tips to all employees according to a standardized and fair formula.

Teaching Tip: Takeaways

One takeaway from this discussion case is the difficulty of meeting all stakeholders' interests simultaneously. By reinstating tipping in 2020, USHG may have met the interests of servers, some customers, and some investors, but may have disappointed back-of-the house workers and customers and investors concerned about equity in the workplace.

Another takeaway is that managers often need to work with other external organizations to meet stakeholders' interests. In this situation, management might need to work with other companies in the restaurant industry to press for legislative changes.