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ESSAYS

A Names-and-Faces Approach to Stakeholder Management

How Focusing on Stakeholders as Individuals Can Bring Ethics and Entrepreneurial Strategy Together

JOHN F. McVEA
University of St. Thomas

R. EDWARD FREEMAN
University of Virginia

Just as the ideas of stakeholder theory, stakeholder management, or stakeholder capitalism approach acceptance as a mainstream core idea in management theory, the authors want to suggest a somewhat radical rethinking of it. They believe that in almost all of its incarnations, stakeholder theory merely recapitulates some rather standard business assumptions. As a result, they believe that two problems are perpetuated—the separation of ethics and value creation and the overemphasis of stakeholder roles rather than relationships between stakeholders as real people with names and faces. In this article, the authors propose that by adopting a view of stakeholders as real people with names and faces, they can reinvigorate stakeholder research and focus their efforts on the neglected challenge of understanding how collections of idiosyncratic individuals can work together to create value in entrepreneurial firms in ways that benefit all those who are affected.

Keywords: *stakeholder theory; ethics; entrepreneurship; strategy*

Just as the ideas of stakeholder theory, stakeholder management, or stakeholder capitalism approach acceptance as a mainstream core idea in management theory, we want to suggest a somewhat radical rethinking of it. In almost all of its in- carnations, stakeholder theory merely recapitulates some rather

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standard business assumptions. First, it rests on the idea that value is created when entrepreneurs or managers put together a deal that simultaneously, and over time, satisfies the groups of stakeholders who play a critical role in the ongoing success of the business: customers, suppliers, employees, communities, and shareholders. Of course, any entrepreneur knows this as second nature. Business just is creating value for stakeholders. That it has taken nearly 40 years from its inception to be accepted into the mainstream is a testament to either the wide gap between theory and practice or the stranglehold that the dogma of shareholder value has on business theory and within business schools. The second assumption that stakeholder theory has done little to question is the separation thesis, that is, the notion that business and ethics can be meaningfully separated. Freeman (1984, 2000) and Wicks (1996) argued that this assumption underlies most of our current thinking about business. Although Freeman (1984) argued that the stakeholder management approach lent itself to moral and normative analysis, it was only later, in the hands of business ethicists, that the normative branch of stakeholder theory began to emerge. And, when it did, it was almost in isolation from the real world of business.

The separation thesis and the assumption of the usual stakeholder roles of customer, supplier, and so on, have been recapitulated and reified in the very structure of business knowledge and business schools. Marketing worries about the customer. Production and operations management worry about suppliers (and sometimes customers). Organization behavior worries about employees. Finance and accounting worry about shareholders. And, social issues, business ethics, corporate responsibility, or corporate citizenship worry about communities. There are at least three important points here.

The first is that increasingly, in the real world of value creation and trade, these role assumptions are too simplistic. Customers may play a significant role in designing, not simply just purchasing, innovative products and services, such as Linux software. Employees who are direct shareholders may act differently from employees who are not shareholders and differently again from those who may hold shares only through their pension funds. Enron stands as a testament to how employee and shareholder roles can easily become confused such that the current theory that defines stakeholders solely through traditional roles may be not very useful.

Second, these role assumptions fail to capture opportunities for integration, that is, designing innovative entrepreneurial strategies and products that satisfy multiple stakeholders simultaneously. This can be done only if managers or entrepreneurs have localized, even idiosyncratic, knowledge of particular stakeholders and their potential. Business policy or strategic management was originally formulated to fulfill this imaginative and integrative role; however, it seems to have fallen headlong off the shareholder-value cliff.

Finally, when combined with the separation thesis and its application in disciplines such as marketing and finance, where theorists eschew moral concerns, these generic assumptions are more likely to lead to the kind of horror stories to which we have been treated in the business press during the past 2 years. After all, if shareholders and customers are just roles, not real people with names, faces, and families, then one may easily rationalize taking from one group and giving to another (perhaps to which one belongs) as just business.

So, let's start over. Let's understand the key insight of stakeholder theory as being that managers or entrepreneurs have to put together a deal that simultaneously satisfies those who can affect or be affected by what the company does, but let us also be open about how to define stakeholder groups or if they are groups at all. In particular, we want to suggest that if we come to see stakeholders as individuals with names and faces, we have a better chance of putting business and ethics together. Let's move on from theories that revolve around the legitimacy of abstract faceless roles and the division of the same old theoretical pie, between the same old generic groups. Let's instead focus attention on the task of understanding and illuminating the challenges faced by real entrepreneurial practitioners—the challenge of better understanding how collections of idiosyncratic individuals can work together to create new value in entrepreneurial firms in innovative ways that benefit all those who are affected.

THE STATE OF STAKEHOLDER THEORY: AN IMPETUS FOR A NEW DIRECTION

During the past 15 years, stakeholder theory has become more than a simple strategic management theory and has developed into what has been called a broad "research tradition" (Trevino & Weaver, 1999).

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However, that so-called tradition has departed sharply from the direction set by the early work on stakeholder management. The original stakeholder framework was explicitly managerial and grew out of a series of clinical studies of management practitioners that were carried out during 10 years (Freeman, 1984). However, in its contemporary guise, stakeholder theory has had its greatest influence on theorists and academics rather than practitioners.

Stakeholder theory today seems to be primarily of concern to business ethicists and management scholars in the area of business and society. Despite the differences in approaches between stakeholder theory as social science and stakeholder theory as normative ethics (Jones & Wicks, 1999), the stakeholder concept has been tremendously successful in gaining acceptance as a core management idea. However, it seems to us that throughout its development, the content of stakeholder research has been moving further and further away from the real challenges faced by practicing entrepreneurs.

It is ironic that despite this dwindling practitioner focus, the challenges of the contemporary business environment are making the stakeholder perspective more relevant than ever for the practicing entrepreneur. In an economy that is increasingly influenced by the role of networks, it is becoming ever more important to view firms as networks of relationships that extend well beyond the traditional boundaries of the organization (Kelly, 1998; Larson, 1992; Rowley, 1997). At the same time, technology is dramatically reducing the costs of building and operating complex stakeholder networks, and these networks are becoming easier to use, richer in content, more interactive, and instantaneous in operation (Kelly, 1998). Given these circumstances, stakeholder theory would appear to offer a unique and neglected contribution to decision-making processes, particularly in innovative and entrepreneurial fields. Other theoretical frameworks emphasize the central role of market structure (Porter, 1985), or the role of internal competencies (Penrose, 1959; Prahalad & Hamel, 1990), or the role of learning (Senge, 1990) in the strategy process. However, the stakeholder approach is unique in its emphasis on the relationships that make up the networks from which new value creation ideas are generated. Thus, it should be emphasized that although we believe that the approach we are advocating has important implications to strategy in general, in this article, we are focusing our thoughts on the challenges facing entrepreneurial businesses attempting to create new markets for novel and innovative products and services (Venkataraman, 1997). We will leave it for another occasion to address the specific stakeholder challenges of large, mature, traditional, and commodity-type industries.

A NAMES-AND-FACES APPROACH

Before defining more fully the characteristics of what we have called "a names-and-faces approach," we must first address a common intuitive response. Some might say that while adopting a more personal names-and-faces approach might be an interesting idea, it is too complex and too costly to be of any practical use. We will initially respond to this criticism not through theory or logic but rather by telling the story of the development of a business strategy that successfully implemented a counterintuitive approach in the face of similar criticisms. It should be noted that we are not proposing that this example of Hertz Gold represents a fully-fledged version of an ethical and entrepreneurial names-and-faces strategy. Furthermore, as we are proposing what we believe is a radical approach, we recognize that this and other examples that we use in this article give no more than a flavor of the possibility of a names-and-faces approach and may indeed have been driven by entirely different motivations. Nevertheless, we believe that partial examples and similar approaches can provide us with an inspiring counterpoint to the conventional wisdom that deepening stakeholder relationships is a cost-creation, rather than a value creation, exercise.

Hertz Gold: The High Cost of Individualized Relationships?

Until very recently, the rental car industry did not place great emphasis on highly individualized relationships with any of its stakeholders, including customers. The business was complex, and it was assumed that what customers most valued was a cheap rental contract. Thus, the dominant business strategy was to pursue automobile purchasing scale and to leverage headquarter administrative costs through geographic expansion. Soon, nearly all the rental businesses were occupying the same market space, with consequent downward pressure on business margins. In the 1990s, Hertz decided to move beyond this generic strategy and develop closer personal ties with its customers. This entrepreneurial

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vision eventually became what we today know as Hertz Gold. Customers could sign up for a program that bypassed the anonymous counter lines and provided personalized service. Using digital screens that showed the customers' name and the location of a car of their preference, customers were directed to a covered collection point where an employee had already opened the trunk, started the car, and set the heating or air-conditioning a few minutes before the customer arrived. Checkout and check-in were handled by employees in the rental lots, equipped with mobile printers and data-processing devices. Employees, freed from lines and infuriating paperwork, could greet customers by name—prompted by handheld devices. Customer preferences could be recorded and applied to future bookings.

The new system was enabled by cheap portable communications technology but also required the complete redesign of all the supporting management systems. By treating its customers more like "names and faces," Hertz provided them with what felt like a personalized and luxurious service. However, astonishingly, "by doing only and exactly what each customer required, Hertz discovered that its Gold service was actually less costly to provide than its standard service" (Gilmore & Pine, 1997, p. 91). As we said earlier, we are not trying to suggest that the Hertz Gold approach represents a fully fledged attempt to treat all stakeholders as names and faces. Clearly Hertz focused all of its efforts on individualizing its relationships with certain customers, as opposed to other stakeholders. However, what we believe it does illustrate is the possibility of technology and entrepreneurial strategy working together to make such individualized approaches feasible and cost-effective.

The situation faced by Hertz is typical of the types of context faced by many contemporary businesses. To deal with the complexity of making decisions within large organizations, problems tend to become defined in terms of generic stakeholder groups. This approach has two effects. First, it results in generic strategies that are similar to those of competitors—at a certain generic level most firms' customers look the same. Stakeholder management, in this incarnation, fails to confer any particular advantages in terms of value creation for the firm and thus fails to generate strong instrumental claims about stakeholder management leading to superior performance. Furthermore, it fails to explain the source of new entrepreneurial opportunities. Rather, it focuses on how current returns are distributed among stakeholders. This is what we will call the entrepreneurial problem of generic stakeholder theory.

Second, generic analyses disguise the real human relationships that exist between the firm and its stakeholders. Stakeholders are treated not as morally important individuals, but as abstractions, characterized by the roles that they play. This approach makes it easy to separate decision making from those stakeholders who are affected by decisions. When this separation has occurred, it becomes difficult to reattach human values to business decisions again. This is the source of what we will call the *normative problem* of generic stakeholder theory. We believe that this separation is at the root of many of the contemporary ethical problems that have plagued certain businesses pursuing innovative strategies. When stakeholders are thought of in terms of their generic roles rather than as individuals of moral worth, it is much easier to formulate strategies that are not only inhuman and unethical but also counter to the long-term interests of the firm. However, it is our proposition that to the extent that firms can analyze business problems by recognizing stakeholders as individuals, they will be able to develop idiosyncratic strategies that are novel, entrepreneurial, and hard to replicate. Furthermore, such strategies would more easily recognize the moral worth of the individual.

Defining a Names-and-Faces Approach

The names-and-faces approach that we are proposing is an attempt to describe a managerial approach to stakeholder theory. A truly managerial theory "does not simply describe situations or predict cause-effect relationships; it also recommends attitudes, structures and practices" (Donaldson & Preston, 1995). As such, a managerial approach does not attempt to precisely separate out descriptive, normative, and instrumental claims. Rather it focuses on concrete business problems, addressing simultaneously why stakeholder management might result in better outcomes and how it might incorporate stakeholder interests into business strategies. To achieve these ends, any framework must be intimately connected with the process of value creation and trade (Freeman, 2000). Thus, a managerial approach to stakeholder theory would focus on a fundamentally different set of questions from much of the existing literature. A managerial approach would not attempt to justify the existence of the firm, similar to many normative theories. Rather, it would focus on how managers make decisions that

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create value while taking account of the interests of all the stakeholders affected by the decision. We now consider each of the three critical characteristics, outlined above, of our proposed names-and-faces approach in turn: a value creation focus, a decision-making focus, and individual relationship focus.

A focus of entrepreneurial value creation. In focusing on the value creation process, we are adopting a perspective that has been developed by the emerging field of entrepreneurship. Traditional business strategy has focused on explaining competitive advantage and relative firm performance. Indeed, Jones (1995) used this approach to build an instrumental stakeholder theory that explains why stakeholder management should produce superior results. However, although competitive advantage is an important strategic issue, Shane and Venkataraman (2000) pointed out that it offers only an incomplete explanation of value creation. For a start, such an approach presupposes the existence of products, firms, and markets and thus precludes an understanding of the creation of fundamentally new opportunities. Furthermore, we believe the fixation with competitive advantage has resulted in, or at least coincided with, the strategy literature abandoning its original integrative and purpose-defining function and instead promoting the primacy of shareholder wealth at the expense of all other considerations. In contrast, entrepreneurial theories of value creation try to explain the creation and exploitation of new goods and services. We believe that the entrepreneurial perspective is particularly important to developing a contemporary managerial stakeholder theory because of the importance of change and new technological development in today's economy. Furthermore, the entrepreneurial perspective allows us to focus on how collections of stakeholders come together and create mutually beneficial projects.

So far we have established that a managerial stakeholder theory should explain the discovery and exploitation of new entrepreneurial opportunities from the perspective of a broad range of stakeholders. We now make a critical proposition. We propose that paying attention to individual stakeholders, rather than analyzing them as generic groups, is required to explain at least one important driver of this entrepreneurial process from opportunity creation or discovery to exploitation.

In supporting this proposition, we first consider the process of opportunity discovery. According to the entrepreneurial account, value creation opportunities exist because of asymmetries of information and beliefs (Schumpeter, 1934). There are two sources of these opportunities—erroneous guesses that others have made about the future and new information that has been created (Shane & Venkataraman, 2000). Penrose (1959) demonstrated that new information and learning are inevitable parts of doing business. New information is routinely created by all stakeholders as part of their regular tasks either because of the inevitability of organization slack or because of the idiosyncratic nature of the way people work. However, this new information is not instantaneously spread to everyone in society. Thus, it remains for the perspicacious individual to make use of his or her own unique "information corridor" (Shane & Venkataraman 2000) to identify the opportunities that others might overlook. Thus, as Hayek (1945) observed,

> Practically every individual has some advantage over all others in that he possesses unique information of which beneficial use might be made, but which use can be made only if the decisions depending on it are left to him or are made with his active cooperation. (p. 521)

If we accept that a significant driver of new value creation is rooted in the idiosyncratic knowledge of individual stakeholders, then it seems that the role of stakeholder management should be to harness as many of these new value creation opportunities as would be fruitful for the benefit of the stakeholders. Doing so requires access to the fragmented bits of information diffused across numerous individual stakeholders. Thus, to the degree that managers make decisions based on generic analyses of stakeholder groups, they are blinding themselves from much of the richness of new value creation opportunities. Analysis at the level of generic stakeholder groups may encourage management to believe that various stakeholders' interests are in irreducible conflict and so must be offset by each other. Whereas, when stakeholders are considered individually, there may be opportunities for creative and entrepreneurial solutions that allow stakeholders to transcend what seems, prima facia, to be an inherent conflict. As a result, generic analyses may discourage the evaluation and creation of new opportunities. These unrecognized opportunities may then either lie fallow or migrate to benefit competing entrepreneurial networks.

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A focus on strategic decision making. As stakeholder theory developed during the past two decades, researchers have concentrated their analyses on the firm, to the detriment of analyzing the decision process. This focus has led normative stakeholder theorists to such issues as the purpose of the firm, the role of the firm, the structure of the firm, and the governance of the firm. Likewise, it has led social scientists studying stakeholder interests to explore questions such as "does the firm that practices stakeholder management outperform the firm that does not" and "what are the broader measures of performance of the firm that stakeholder theory might imply." Although much valuable work has been produced, the results have also been problematic for both streams of stakeholder research. Ethical theory has become mired in a philosophical debate about the normative foundations of the firm, producing a multitude of competing philosophies. At the same time, the social scientific approach has focused on developing ever more complex ways of measuring corporate social performance to prove either the existence or the superiority of stakeholder firms—a case that has yet to be persuasively demonstrated (Wood & Jones, 1995). Although the issues of corporate governance, legal status, and social performance indices are important in their own right, they are rarely the central challenges of entrepreneurial practitioners. Thus, the analytical focus on the institution of the firm has led to the neglect, by stakeholder theorists, of issues that are central concerns of real entrepreneurs; and this, in turn, has led to a widening gap between theory and practice in the field.

We believe that it is time to change the level of our analysis and focus our efforts on illuminating the actual process of making real entrepreneurial decisions. Such a change will refocus our research on issues that are more relevant to the practitioner. Furthermore, it will also help us sidestep a number of issues that have become significant distractions to progress. If we focus our analysis on the challenges of specific decisions, then a number of theoretical problems that plague generic stakeholder theory disappear such as the question of management fiduciary duty. Whether managers' duties are to stakeholders in general or stockholders in particular becomes moot at the level of strategic decision making. From the perspective of a particular decision, it becomes clear that if management tries to make decisions by focusing attention exclusively on their shareholder relationships, they will never discover all the information they need to make the best entrepreneurial decisions. From an entrepreneurial perspective, the value creation ability of the firm is embedded within the network of hundreds of idiosyncratic stakeholder relationships—an ability that remains unliberated by a theoretical commitment to focus on serving the shareholder. Furthermore, such an approach would not even be in the long-term interests of shareholders. From a decision-focused perspective, it becomes clear that maximizing shareholder wealth is a theoretical end rather than a practical means to value creation.

A focus on individual relationships. The problem of identification, that is, who is and who is not a stakeholder, is an important issue among stakeholder theorists. However, over the years, stakeholder theory has offered "a maddening variety of signals on how questions of stakeholder identification might be answered" (Mitchell, Agle, & Wood, 1997). On one hand, some theorists have claimed that the lack of specificity in how stakeholder theory deals with this problem illustrates the need for a fleshing out of the stakeholder approach through the development of more detailed theories (Clarkson, 1998; Phillips, 1997; Wood & Jones, 1995). On the other hand, others have used the problem of stakeholder identification as a demonstration of the hopelessly intractable nature of the stakeholder approach per se (Marcoux, 2000).

Historically, most theorists have defined stakeholders according to a set of simple generic roles with the firm: customers, suppliers, employees, shareholders, and community. Few have questioned the value of analyzing stakeholders as generic groups based on their roles. As a result, much discussion has taken place about the normative claims of stakeholder groups in general (Burton & Dunn, 1996; Clarkson, 1998; Wicks, Gilbert, & Freeman, 1994), the legitimacy of various stakeholder groups (Blair, 1998; Boatright, 1994; Phillips, 1997), and the priority that management should give to these groups (Mitchell et al., 1997).

In contrast, we propose an approach that is founded on the real set of individual stakeholder relationships of real firms in the contemporary business environment. We believe that current stakeholder trends are making general group designations ever more inadequate. Stakeholder migration is a critical issue in today's economy. Stakeholders have begun to challenge the borders between traditional stakeholder groups. Numerous examples across all stakeholder boundaries suggest a fundamental shift in stake-

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holder dynamics is occurring. A simple and accurate description of stakeholders by neat categories is becoming more and more difficult, particularly in the most entrepreneurial sectors of the economy such as high technology and medical sciences. For example, consider the following conflation of roles:

1. Management and employees: Organizations have become flatter as front-line employees have become better informed than their managers. The role of the manager has changed as he or she focuses on empowerment and coaching. The growth of team-based structures, collegial relationships, and campuslike work environments has blurred the distinction between management and employees.
2. Customers and employees: Customers are frequently completing tasks formerly carried out by employees. For example, "When you pump gas at the filling station, are you working for the gas station or for yourself" (Kelly, 1998, p. 120). In other areas of contemporary business, this trend has gone even further. Open system software, such as Linux, depends on customers to design and continuously update the product. Amazon.com relies on customers to write book reviews and to generate purchase suggestions for other like-minded consumers. The result is the rise of "prosumers," a combination of the producer and consumer roles (Toffler, 1980) that are fast becoming part of our daily lives.
3. Shareholders and employees: Employees and management have become significant holders of equity particularly in the high-growth service industries. In many of today's leading firms it is becoming hard to distinguish between owners and employees.

In each of these examples the boundaries between stakeholder groups are becoming blurred, and stakeholder relationships are becoming more complex. Obviously, any generic classification of stakeholder groups is a simplification. However, we propose that the traditional simplifications are no longer adequate. As pointed out earlier, to manage stakeholder relations according to the traditional groupings (customers, employees, suppliers, shareholders, community) would be to blind the entrepreneur to some of the critical characteristics of the contemporary business environment. However, this generic approach has a second important side effect. Generic stakeholder analysis is an important driver of the normative problem of stakeholder theory.

The normative problem is a result of what Freeman (1988) referred to as the separation thesis. According to this view, business discourse has been divided into separate business-is-business decisions with no moral content and moral decisions with no business content. To try and resolve this separation, philosophers have developed a series of competing moral foundations for stakeholder theory. However, these theorists have failed to clearly demonstrate the superiority of one moral foundation over another. As a result, practitioners are left with a confusing array of frameworks through which to incorporate ethics into the business world.

We believe that the articulation of stakeholder theory from the perspective of generic stakeholder groups has contributed to this theoretical separation in several ways. First, the generic perspective can encourage practitioners to feel distant from their stakeholders as individuals and thus to discount their effects on them. Thinking about stakeholders as faceless groups, defined according to abstract roles, can result in individual moral responsibility becoming easier to ignore. Much the same point has been made by Jones (1991) in identifying the role of proximity as a driver of ethical behavior. According to this account, managers will restrict their highest level of ethical consideration for situations that they feel to be morally intense, and perceived moral intensity increases with the degree of proximity the manager feels toward the objects of his or her actions. This feeling of proximity to others can be strongly influenced not only by physical distance but also by how we think of those people. We are suggesting that generic thinking dulls our sense of proximity to those stakeholders. Thus, we believe that the conventional language of generic stakeholder groupings can facilitate a neglect of individual ethical consideration.

A second tendency encouraged by the generic perspective is what we might refer to as a just-business attitude to decision making. It is true that all theorists regard the interests of stakeholder groups as having intrinsic value. However, it is often difficult for practitioners to incorporate the normative dimension within the everyday language of business decision making. The moral basis for the consideration of stakeholder groups is generally justified with reference to complex, abstract, and philosophical foundations within the ethics literature. The language and the content of these foundational approaches are alien to mainstream business practitioners. Thus, when time-pressed decision makers run up against the difficulties of incorporating Kantian, rule utilitarian, or virtue ethics into the language of business, there is a tendency to leave out the difficult abstractions and leave in the familiar business considerations, resulting in a just-business approach.[1]

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In contrast to the generic perspective, from a names-and-faces perspective it is much more straightforward to see decision making as an ethical process from the ground up. First, a names-and-faces approach can increase the feeling of proximity that the decision maker has for his or her stakeholders. Second, if we view firms as a network of individual personal relationships, then we have less need to import abstract moral foundational arguments to justify the nature of our consideration. We believe that we can make more progress in integrating ethical responsibility in business if it is founded in the physical reality of the personal relationships that make up the business rather than in the ability of managers to operationalize philosophical abstractions. We believe that if we start from the position that stakeholders are simply individuals with a stake in the decision at hand, then the relationships themselves become sufficient motivation for moral consideration. We need to dig no deeper. This does not of course imply that just by considering stakeholders as people with names and faces, ethical problems are resolved. Managers will always be free to be ethically lax or to make bad ethical decisions. They will be free to be imaginative in creating expansive solutions or thoughtless in neglecting or reinforcing enduring conflicts. Furthermore, stakeholder management will remain difficult, complex, and perhaps at times, intractable. Nevertheless, adopting a names-and-faces approach frees us to consider the practice of business as an inherently ethical process where ethical consideration is integral to normal decision making. Thus, we believe that ethical problems involved in making business decisions can become practical considerations for entrepreneurial value creation rather than theoretical or metaphysical abstractions.

In sum, we want to begin the task of radically rethinking the role of the stakeholder framework based on three critical characteristics: a focus on value creation, a focus on decision making, and a focus on individual stakeholder relationships. This names-and-faces approach to stakeholder management states that firms that treat their stakeholders as individuals with names and faces will develop more value-creating strategies and will also incorporate ethics as an inherent part of the decision-making process. Reframing the stakeholder enterprise along these lines will obviously be an extensive undertaking. At this stage, we can provide no more than an agenda and a call to arms. However, having outlined this initial sketch, we end by turning to a parallel field of business theory: mass customization. A brief review of this literature provides, we believe, not only another inspiring story of how researchers can successfully break through the apparent contradictions and constraints of academic conventions and make a tangible contribution to the practice of value creation and trade but also the identification of a number of principles that can be applied to a names-and-faces approach. By identifying and applying these principles, we hope to begin the task of making more tangible and accessible the approach we have advocated in the first part of this article.

NAMES AND FACES: LESSONS FROM MASS CUSTOMIZATION

Mass customization was a response to severe market turbulence. In the late 1980s manufacturers were stuck in a paradox. Consumers seemed to exhibit an insatiable demand for variety and personalized products. However, variety and complexity of product range was a major driver of manufacturing cost. Cost and customization seemed, intractably, to be on conflicting sides of the challenge facing practitioners. Thus, the more firms succeeded in satisfying their customers, the more they seemed destined to raise costs and destroy their own financial performance. Mass customization was a way of thinking that helped manufacturers break out of this paradox.

Mass customization is a collection of techniques that allows manufacturers to treat customers as individuals by ensuring that they are each supplied with exactly what they want. However, it is not only customers who gain from this individualized approach. A more individualized service leads, in turn, to greater customer satisfaction, and this, in turn, leads to higher prices for the manufacturer.[2] Furthermore, there is often less wasted effort if a manufacturer makes each product with only the attributes each customer requires. Thus, the intellectual ideas and techniques developed through this research helped demonstrate how practitioners could bring opposing constraints into alignment. However, developing this win-win strategy for all stakeholders did not come without considerable effort.

First, mass customization required a change of strategic mind-set. Just like a names-and-faces approach to stakeholder management, the concept of mass customization in manufacturing was counterintuitive to the existing way of thinking. “Mass customization is an oxymoron, which is the putting together of seem-

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ingly contradictory notions, like jumbo shrimp and artificial intelligence" (Davis, 1993, p. ix). Second, it required the creation of innovative management systems and technologies that were capable of supplying "variety and customization through flexibility and quick response" (Pine, 1993, p. 44).

What principles can be gleaned from the development of the mass customization approach that might shed some light on our ambitions for stakeholder relationships as a whole? Three principles seem to be shared by successful mass customizing firms that might point a way forward for our own project—first, the importance of intense individual and lasting relationships; second, modular design; and third, flexible delivery systems.

Intense, Individual, and Lasting Relationships

Mass customization requires the development of more intimate relationships with customers than simple exchange-transactions. "(It) encourages more customer interaction and information, faster cycle times, and greater variety and customization" (Pine, 1993, p. 194). For example, in the drug industry a new approach called pharmacogenomics is being developed. Individuals can use devices, such as those made by Affymetrix, to encode part of their DNA profile on chips. Drug companies can then use these chips to custom design treatments for each individual, taking into account their age, family history, and genetic make up (Cox & Alm, 1998). The information generated by one treatment can be used to develop the next customized treatment. Intimate information exchange and deep relationships of trust are necessary to enable such transactions to succeed. Through mass customization lifelong customer relationships become the norm; simple exchange transactions become the exception.

When this operating principle is applied to stakeholder theory, in general, it suggests two critical advantages of a names-and-faces approach: an increase in strategic options and greater stakeholder support. First, by developing intense, lasting, and individual stakeholder relationships, management will uncover a much broader range of strategic options. Just as mass customization enables an almost endless range of product options, so a names-and-faces approach to stakeholders, in general, will produce an almost endless number of entrepreneurial options in finance, human resources, purchasing, environmental performance, and community relations. For example, instead of assuming permanently intractable relationships with environmental concerns, pioneering energy groups can begin dialogues that try to craft innovative strategies that take account of the environmental concerns of individuals—whether they are also employees, customers, or members of environmental organizations.

Second, as mass customization has shown, individualized relationships can produce much higher levels of stakeholder satisfaction. Stakeholder theory is built on the assertion that the success of a firm depends on its ability to satisfy stakeholders over the long run. Thus, to the degree that a names-and-faces approach can raise the satisfaction of stakeholders, it should eventually raise the long-term performance of the firm. Stakeholder satisfaction can be an extremely tangible aspect of corporate performance (Jones, 1995). Lower employee turnover will reduce hiring and training costs, loyal suppliers will reduce quality qualification costs, supportive communities will reduce legal and public relations overhead, and stable shareholders will reduce stock market volatility and lengthen planning horizons.

Modular Design

The second operating principle developed by successful mass customizers is that of using modular design to provide customers with flexibility at low cost. Modular design allows customers flexibility over the aspects of the product that they value most, while allowing the firm to standardize those aspects that customers value least. For example, Hewlett Packard printers use a standardized printer engine for all customers everywhere. However, power supply components are designed as modules operating at 110 volts or 220 volts. These modules can then be slotted in depending on the customer needs in the eventual market of sale (Feitzinger & Lee, 1997, p. 116).

When the principles of modular design are applied to stakeholders in general, they suggest three critical management tasks. First, management must develop an understanding of the nature of the stake each stakeholder has in the business. Second, management needs to identify which aspects of each stake are most important to each stakeholder. Thus, a critical priority for management should be to develop a deep and personal understanding of what really matters to each stakeholder. Third, a critical management task is to determine which aspects of stakeholder relationships

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should be standardized and which can be left flexible through modular design.

For example, let us consider a computer manufacturer where different employees may hold slightly different stakes in the business. One employee may be a fanatical computer geek, another might be a significant owner of company stock, and a third might be politically active in the local community. The firm might consider offering a range of employee benefit modules such as fixed salary pay, overtime, performance incentive pay, product discounts, priority access to new product launches, matching gifts to local charities, and/or paid leave for community service. Each employee could then select from these modules, within restrictions set by management, to design her or his own compensation package that satisfies each better than a standard compromise employment package. By treating each employee stakeholder as a name and face with an idiosyncratic stake in the firm, management is able to provide customized solutions that create value for the employees and reduce waste, thereby providing benefits to all other stakeholders in the firm.

Flexible Delivery Systems

The third principle of mass customization is the development of flexible delivery systems. "The key to mass customizing effectively is postponing differentiating a product for a specific customer until the latest possible point in the supply network" (Feitzinger & Lee, 1997, p. 116). The classic example of postponed differentiation is the Benetton innovation of knitting sweaters in greige (undyed) yarn and then dying the garments at the last minute depending on the latest color trends. Flexible delivery systems decentralize critical management decisions and move the decision point much closer to the consumer. The critical change is that manufacturing emphasis switches from a push to a pull system. In a push system, customer demand is forecasted centrally, and then product is designed, manufactured, and pushed through the supply pipeline. In a pull system, the customer selects from a broad pallet, and then the assembly and production is pulled through the supply pipeline. Moving from push to pull system required more than just a change of attitude.

> Of equal if not greater importance in achieving low costs and customization are advances in management. The development of just-in-time delivery, lean production techniques, time-based competition, cross-functional teams, and a host of other advances has increased flexibility and responsiveness and therefore the ability to increase variety and customization without parallel increases in cost. (Pine, 1993, p. 49)

If this operating principle is applied to stakeholder management, in general, it suggests that a names-and-faces approach could invert the process of making entrepreneurial strategies. Many critical decisions would be decentralized and moved much closer to the point of direct interaction with stakeholders. Strategy itself would become a pull rather than a push process. Stakeholders themselves would become the origin of much of what is today considered corporate strategy. However, these changes will only be possible after considerable advances in management practices and systems have taken place. These decentralized processes would allow stakeholders to make trade-offs between different aspects of their stakes in the business. Where this is not possible, and conflict persists, management priority should be to try to creatively develop new modules and alternatives that allow stakeholders to transcend the conflict.

Although the idea of decentralizing strategy might itself seem oxymoronic, an example from the area of retirement planning might help illustrate the nature of the point. As a tradition, management appointed an independent board to manage investments in the pensions for all employees; it was much too costly and complex to take into account the individual circumstances and preference of each employee. Eventually, however, the development of the 401(k) account allowed firms to let employees choose between a number of investment vehicles. Moving a step further, with the advent of network technology, it is now common for firms to provide employees with Internet-based trading systems where they can finely tune their retirement plans to their own needs and do so on a daily basis. This customized service has resulted in more satisfied employees, employees treated more like individuals about whom the organization cares individually, and lower operating costs; it has also moved the decision point on retirement planning strategy out toward the stakeholders. Retirement planning strategy has been turned on its head. Make no mistake, the firm still has a retirement benefits strategy; however, the strategy is mostly crafted by decentralized employees. The only centralized strategy required is the design of the system that facilitates stakeholder dialogue and that deter-

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mines the level and the types of trade-off that will be offered.[3]

In summary, the current study of the mass customization literature has yielded a number of interesting insights for our proposal of a names-and-faces approach to stakeholder management. We have identified three major operating principles for successful implementation of mass customization, relating to relationships, design, and delivery.

WHAT ARE THE LIMITATIONS OF THIS APPROACH?

Is it too tall an order to propose that managers and entrepreneurs develop this level of understanding with their stakeholders? Of course, it could be argued that the process of stakeholder management is intractable because complete analysis would require the consideration of an infinite number of "knock-on effects" on an almost infinite number of stakeholders. We would respond to this in two ways. First, we are proposing a names-and-faces approach as a moral and strategic aspiration that should drive the entrepreneurial enterprise. That it is challenging, difficult, and demanding is not in dispute. However, in our personal lives we would not dismiss the importance of, for instance, being considerate to others on the grounds that it would be too challenging to expect anyone to even try. Second, our proposal is underpinned by a belief in human, entrepreneurial, and moral progress. One of the distinguishing features of human culture is the ability to develop and amend ways of dealing with complex, open-ended, imperfectly defined problems through experimentation and learning. The level of complexity in dealing with individualized stakeholder relationships is no different from that of many other management problems. In the traveling salesperson problem, the complexity of determining the exact shortest route between a large number of customers defies precise calculation. In inventory management, it is impossible to fully optimize stock levels in the face of uncertain demand. Good management involves the development of heuristics to find reasonable solutions to infinitely complex problems. Traveling salespeople do not remain analytically paralyzed; rather, they get to their customers in a reasonable manner. Warehouse managers juggle their stock, meet demand, and control their costs; and stakeholder managers can create strategies that take account of individual stakeholders, within reasonable time constraints, in a morally acceptable way. Furthermore, the Hertz Gold story reminds us that technology can help us develop better and better solutions to exactly these sorts of intractable problems. In sum, we are simply trying to challenge the assumption that entrepreneurial decision making cannot take account of individual relationships. Moral and entrepreneurial progress can go hand in hand.

SUMMARY AND CONCLUSION

We proposed that it is time for a radical rethinking of the stakeholder approach to business. If we are correct in our assessment, stakeholder theory stands at something of a crossroads. One direction leads toward a more robust theory of the status quo, that is, marketing understood in stakeholder terms, operations, stakeholder terms, and so on. A second direction leads toward a more pronounced split between theory and practice, between normative and descriptive (if this is even thinkable), whereby when all is said and done, stakeholder theory represents the wild ravings of ethicists who don't know anything about the real world of business. A third direction leads toward the production of more studies like most of those in the special issue of *Academy of Management Journal* (Harrison & Freeman, 1999)—good solid empirical studies that describe the way managers and others think the world is. A final direction is perhaps the deal with the devil that we propose: come to see stakeholders as human beings with names, faces, and families. The opportunities for satisfying their individual needs, exploring their multiple role relationships and determining how these can be better understood and fulfilled would open up a vast new space for value creation and trade. Ultimately, this space would require that the modern corporation can be remade more in line with the moral ideas of classical liberalism and pragmatism (Freeman & Phillips, 2002), and ultimately, the disciplines of business and business schools would have to be rethought or continue down their current pathway to oblivion.

NOTES

1. This amoral approach to business is sometimes defended by the observation that business must still operate within the bounds of the law. However, the law is too blunt an instrument to fully complete this task (Stone, 1975). As

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numerous recent examples have demonstrated, many of the most damaging examples of stakeholder negligence or exploitation occur in that gray area between where the law ends and where personal ethics begin. Furthermore, expanding and overspecifying the law beyond its effective scope seems only to create the opportunity for new loop holes, or worse, leaves the impression that there is no need for ethics—that we just need to wait for the law to catch up. We believe that such faith in the law is naïve at best. In an entrepreneurial world where the boundaries of possibility are always in transition, there will always be opportunities for unethical, but legal, entrepreneurial decisions. This is precisely the reason that the separation thesis is so dangerous and must be challenged.

2. In a working paper, Ebben and Johnson (2003) found evidence that "meaningful differences exist between small firms in terms of standard and made to order products" (p. 22). They concluded that firms that have assumed a flexible or made-to-order strategy tend to outperform firms that try to pursue efficiency strategies as well as flexibility.

3. It should be noted that the purpose of this example is to illustrate how technology has been successfully used to ease the tension between individualized service and cost for stakeholders other than customers. We believe that the illustration holds notwithstanding any wider criticisms about the knock-on economic effects of the general switch to individual pension plans.

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***JOHN F. MCVEA** is an assistant professor of entrepreneurship at the University of St. Thomas, Minnesota. His academic specialties are entrepreneurial strategy, managerial decision making, and business ethics. He holds an MBA and a Ph.D. from the Darden School at the University of Virginia and also spent several years as a strategy consultant working for Bain & Co. in Boston. He has taught business ethics and entrepreneurship courses at the University of Virginia and at St. Thomas is currently teaching "Entrepreneurship for Non-Majors," "Entrepreneurial Marketing," and "Entrepreneurship and the Christian Faith." He is completing research in the area of decision making in ethically pioneering situations, in stakeholder management, and is developing a number of business case studies, from the Twin Cities area, for use in class discussions at St. Thomas.*

***R. EDWARD FREEMAN** is Elis and Signe Olsson Professor of Business Administration and codirector of the Olsson Center for Ethics, at the Darden School, University of Virginia. He works in the area of business ethics and business strategy. Freeman's books include* Strategic Management: A Stakeholder Approach, Corporate Strategy and the Search for Ethics, and Environmentalism, *and* The New Logic of Business: How Firms Can be Profitable and Leave Our Children a Living Planet. *He is the editor of the* Ruffin Series of Business Ethics *published by the* Business Ethics Quarterly. *He has received outstanding teacher awards at the Wharton School, the Carlson School University of Minnesota, Darden and the University of Virginia. He has been a consultant and speaker for companies all across the world.*

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