The Multi-stakeholder Operating System

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To loosely borrow from a 1996 book by a prominent politician, “It takes a family of stakeholders to grow a business.”

The frontier mentality of self-sufficiency that helped shape American business is giving way to a new ethos of interdependence and cooperation. Companies are discovering the power of collaborative stakeholder relationships.

Jody Gittell, writing in *The Southwest Way*, observed, “Southwest’s most distinctive organizational competency is its ability to build and sustain relationships characterized by *shared goals, shared knowledge, and mutual respect.* (Italics added.)

The Southwest story is about a family of stakeholders working together for mutual benefit. It stands as one of the most remarkable success stories of all time in the airline business.

Edward Freeman, University of Virginia’s Darden School of Business professor was the first to formally describe the multi-stakeholder operating system.[1] Freeman sees it as a return to Adam Smith’s view of capitalism:

> Adam Smith taught us that capitalism is based on trust. In fact, its main driving force isn’t competitive, but rather the capacity for its actors to create value through cooperation rather than individual effort. But it seems that companies have lost sight of this concept over the years, and now focus on value creation solely for shareholders, and this compromise deprives companies of potential value creating partners.

A multi-stakeholder operating system turns stakeholders from mostly passive observers and beneficiaries into more active partners in creating value. Who is a stakeholder? Any person or group in a position to experience gain or loss from a company’s operation. Obviously, no company can concern itself directly with all stakeholders coming within the sweep of that definition. Limits must be placed on how broad and deep a company extends its outreach to stakeholders. We suggest organizations should focus their attention on five primary stakeholders: Customers, Employees, Suppliers, Communities and Investors.

Each primary stakeholder is supported by or interacts with secondary stakeholders. For example, employees interact with and receive the support of their families, professional associations, labor unions and other secondary stakeholders. When a company contributes to meeting the needs of secondary stakeholders, employee loyalty and commitment runs deep.

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[1] R. Edward Freeman, *Strategic Management: A Stakeholder Approach*, Pitman Publishing, 1984.

Secondary stakeholders can play a critical role in a company's success. For example, labor unions helped bring Harley-Davidson back from the edge of bankruptcy in the early 1980s. A decade of bungled management, declining quality and poor marketing nearly ended Harley's days. In 1981, 13 senior Harley executives believing they could turn the company around bought it from AMF. Harley's newly constituted team brought employees' labor unions into the salvation process. One of the unions' most important roles was restoring worker confidence in Harley's management and motivating them to work harder and smarter for *their* company.

The successful execution of a multi-stakeholder management system depends on committed stakeholder engagement. Having this commitment is not a company birthright. It is the result of intentionally managed processes that bring all primary stakeholder groups together on common ground for mutual benefit.

At its most productive expression, stakeholder engagement achieves *concinnity*—an ancient English noun meaning, "a skillful blending of the parts, creating an elegant harmony. When all players work in harmony, each player is both more productive and better compensated.

The uniting objective is to optimize benefits that flow from the company to stakeholders, and back to the company from stakeholders. High value outcomes of this stakeholder engagement process include, risk reduction, increased business opportunities and a steady flow of social capital:

- ***Risk reduction***. Active stakeholder engagement gives a company access to a network of listening posts. These listening posts provide early notice of potential and emerging problems. Information gained from this network covers a wide spectrum of issues, from customers and employee issues to environmental issues and governance concerns of shareholders. Stakeholder listening posts enables a company to see problems and take action before they turn into major crises.
- ***Increased business opportunities.*** Stakeholder engagement will inevitably reveal new business opportunities. Google understands this. Google system and business development employees *must* devote 20 percent of their time to projects of *their own* choosing. Google assumes that when given time and the opportunity to innovate, employees will come up with new revenue sources that might be overlooked in a traditional operating environment. This approach was the genesis of the highly profitable AdSense program. Google's gross ad revenues rose to more than $4 billion annually after giving website operators and bloggers a stake in ad revenues.
- ***Steady flow of social capital.*** Social capital refers to a company's networks, cultural norms and the social trust it has earned from each stakeholder group. Despite the high value of social capital, it resists economic quantification.

> Nevertheless, it is possible to assess the quality of a company’s stakeholder relationships and their potential contribution to the creation of value.

In conclusion, anecdotal evidence indicates that interest in the multi-stakeholder operating system may be approaching a tipping point. Reaching this point could turn it into a force that could change the face of capitalism. On first hearing, that possibility may seem remote. However, the coordinated, intentional engagement of all stakeholder groups for mutual benefit is proving itself to be the foundation of value creation. This is happening because it is well aligned with today’s marketplace expectations about the companies we work for, invest in, buy from and allow to operate in our communities.