

EMBA Cycle 9 - Module 4

Organizational Behavior and Leadership

Ford Motor Company: Competitive Advantage through Stakeholder Influence

Team 2 | July 17, 2009

Preface

This paper explains how the Ford Motor Company ("Ford") can gain a competitive advantage over its competitors by promoting the interests of the organization and leveraging its power to exert influence on internal and external stakeholders.¹ The firm has already demonstrated that it understands the importance of and opportunities in a sound management of its various stakeholder groups, as evidenced by the signing of a "transformational labor agreement" with the United Automobile Workers Union (UAW) in 2007 that restructured labor cost obligations and resulted in significant savings². Ford described its view on stakeholder management in its December 2008 business plan submitted to the Senate Banking Committee:

We are reaching out and listening to customers, dealers, employees, the UAW, suppliers, investors, communities, retirees, and federal, state and local governments. Each of these constituencies is a critical part of, and critical to, the success of our business going forward. Realizing our goal of profitable growth for all is as important to these stakeholders as it is to our shareholders.

Executive Summary

Ford and other automobile manufacturers are currently affected by two significant macro-issues: the worldwide financial crisis, and shifting customer requirements towards less costly and more full-efficient cars. This paper initially details the various stakeholder groups Ford must manage effectively to be

¹ Source: Syllabus MBA 718, Module 4

² "Ford Motor Company Business Plan Submitted to the Senate Banking Committee," December 2, 2008

successful. Using a matrix of all stakeholder groups and their interests, we developed a heatmap to enable prioritizing stakeholder management efforts. Active stakeholder management has attractive rewards for Ford. Research suggests that it enables firms to respond to changing circumstances with relative ease,³ and that skillful employee and customer stakeholder management results in competitive advantage.⁴ We also present a brief review of theories of stakeholder management, competitive advantage, and maturity assessments, and offer the following priority recommendations how Ford could influence internal and external stakeholders in support of its strategic objectives:

1. Complete a stakeholder management maturity assessment to refine priorities
2. Implement a comprehensive "employee engagement"⁵ program
3. Schedule product roadshows in key markets
4. Aid suppliers financially and engage them in the product design process
5. Maintain openness towards analysts and opinion makers by admitting to mistakes more often, and by frequently exposing Ford managers and employees to product review experts
6. Engage dealers in product development, roadshows, and when participating in product reviews
7. Plan an extraordinary dividend in 2011 for loyal investors (included should be a communications program throughout 2010 that keeps investors informed about progress towards this goal)
8. Participate in joint committees with Government officials and ventures with manufacturing firms to influence policy and develop opportunities for future profitable markets
9. Implement a public relations effort to engage green lobbyists and local communities

³ Jeffrey S. Harrison and Caron H. St. John, "Managing and partnering with external stakeholders," *Academy of Management Executive*, 1996, Vol. 10, No. 2

⁴ Shawn L. Berman, Andrew C. Wicks, Suresh Kotha, and Thomas M. Jones, "Does stakeholder orientation matter? The relationship between stakeholder management models and firm financial performance," *Academy of Management Journal*, 1999, Vol. 42, No. 5

⁵ Corporate Leadership Council, "Business case for measuring employee engagement rather than satisfaction," October 2006

Introduction

A review of current societal and macro-economic issues is warranted as they factor in any approach on stakeholder management. Two issues are at the forefront: the financial crisis and changing customer requirements associated with environmental concerns.

Financial Crisis

The crisis affects Ford and its competition in several ways:

- Sinking demand lowers revenues and income, and forces the industry to more aggressively cut costs and explore emerging markets⁶
- General Motors' (GM) and Chrysler's bankruptcies⁷ threaten the remainder of the U.S. car industry given shared supplier dependencies⁸
- Falling share prices in a depressed stock market lower firm's market values⁹
- Foreign auto makers "make acquisitions to gain a foothold in the West"¹⁰, which increases competition in the already battered auto industry

Of course, there are potential opportunities in this crisis. Ford could enjoy an influx of Chrysler and GM customers, should they lose faith in those company's products and services.¹¹

The spring of 2009 also saw some good news for the automobile industry:

- The descend of consumer spending appears to have bottomed out,¹² and the May 2009 Consumer Confidence Index, as measured by The Conference Board, improved to 54.9 from 40.8 in April¹³
- Goldman Sachs forecasts respectable car sales in 2009, although this assumes that congress passes a bill in support of a rebate program that encourages consumers to replace older cars¹⁴

⁶ "Industry Survey Autos & Auto Parts," Efraim Levy, Standard & Poors, December 25, 2008

⁷ Associated Press, "GM and Chrysler's bankruptcy cases at a glance," June 12, 2009

⁸ "Industry Survey Autos & Auto Parts," Efraim Levy, Standard & Poors, December 25, 2008

⁹ Ibid

¹⁰ Ibid

¹¹ "Fixing up Ford," CNN Money, May 12, 2009

¹² "U.S. Economy: Consumer Spending Slows, Job Cuts Mount (Update1)," bloomberg.com, April 30, 2009

¹³ "Consumer Confidence Survey Press Release, retrieved June 28, 2009 from <http://www.conference-board.org/economics/ConsumerConfidence.cfm>

¹⁴ "Goldman Boosts '09 Auto Sales Forecast," Wall Street Journal, April 22, 2009

By its own account, Ford responded reasonably well to the challenges posed by the financial crisis.

Measures implemented to position Ford for a successful future include:

- Adjusted production to demand¹⁵
- Reduced "salaried personnel" and "hourly labor" costs¹⁶
- Restructured health care coverage obligations through an agreement with the UAW¹⁷
- Filed application with FDIC to become an industrial bank to create another source of capital¹⁸
- Eliminated uneconomical "duplicative structures," i.e. by moving to a "global vehicle platform"¹⁹
- Divested "non-core assets" in support of the "One Ford" strategy²⁰
- Restructured plants and other business areas (i.e. refocusing Ford Credit and closing Dealers)²¹
- "Renegotiated a transformational labor agreement" to cut "operating costs"²²
- Repositioned product development focus to create a "balanced and complete portfolio" and engineer "smaller, fuel efficient cars"²³
- Began changing plants to "have flexible body shops to enable quick response to changing customer demands"²⁴

Additionally, CEO Alan Mulally has begun changing how people work together at Ford. Some facets of Ford's "deeply ingrained hierarchical"²⁵ corporate culture have been described as follows:

- Employees exhibited a "tendency ... to rationalize mistakes instead of fixing them"²⁶
- "Weary corporate lifers" became complacent and "too comfortable with the idea of losing money," and "mediocrity" became tolerable²⁷

¹⁵ "Ford Motor Company Business Plan Submitted to the Senate Banking Committee," December 2, 2008

¹⁶ Ibid

¹⁷ Ibid

¹⁸ Ibid

¹⁹ Ibid

²⁰ Ibid

²¹ Ibid

²² Ibid

²³ Ibid

²⁴ Ibid

²⁵ "The new heat at Ford," BusinessWeek, May 29, 2007

²⁶ Ibid

²⁷ Ibid

- "Ambitious managers focused on kissing the right rings instead of racking up results"²⁸
- "Rapidly cycling executives through new posts every two years" discouraged "cooperation with other divisions and regions"²⁹

Select actions implemented by Ford's leadership that aim to change the firm's culture include:

- The "One Team"³⁰ strategy seeks to improve collaboration amongst employees by ensuring that "everyone is included and contributes, openness is encouraged, our leaders are responsible and accountable," and through "high performance teamwork [being] a performance criteria [which] we follow ... every week, every month, and every quarter."³¹
- Ensuring the success of the overarching "One Ford" strategy that will transform the entire firm is sought through a more inclusive approach on managing stakeholders; specifically by "partnering with and enlisting all of our stakeholders to help us execute our Plan [sic] to deal with our business realities and create an exciting viable Ford business going forward."³²
- Ensuring "a skilled and engaged team by ... conducting leadership development programs, ... providing flexible work arrangements, ... conducting transparent communications, [and] conducting events focused on future products to build employees' confidence"³³
- Recurring meetings of the CEO with "divisional managers" help "spread his new religion" and, for example, "[break] long-standing ... taboos, such as ... never admitting when you don't know something"³⁴

Because of CEO Mulally's "fresh perspective"³⁵ and new regimen, "decision-making is more transparent" since "once-fractious divisions [work] together."³⁶ Consequently, "a once wasteful and balkanized vehicle

²⁸ "The new heat at Ford," BusinessWeek, May 29, 2007

²⁹ Ibid

³⁰ A supporting objective in the "One Team" strategy, as outlined in "Ford Motor Company Business Plan Submitted to the Senate Banking Committee," December 2, 2008

³¹ "Ford Motor Company Business Plan Submitted to the Senate Banking Committee," December 2, 2008

³² Ibid

³³ Ibid

³⁴ "The new heat at Ford," BusinessWeek, May 29, 2007

³⁵ "Alan Mulally: The outsider at Ford," BusinessWeek, March 5, 2009

³⁶ Ibid

development system is beginning to cohere."³⁷ In the current difficult economic climate, it has to be seen whether a new executive, a revamped strategy, and an adjusted corporate culture will lead to improved stakeholder management, Ford's survival, and superior returns for shareholders. Seemingly, though, the foundation for these accomplishments has been laid.

Changing Customer Requirements Associated with Environmental Concerns

Most customers make automobile purchasing decisions using selection criteria.³⁸ They include (in no particular order³⁹):

- Perception of brand value and purchase price
- Fuel economy and operating costs
- Vehicle safety, reliability, and quality
- Warranty terms and service options
- Product features, performance, and resale value

Ford has recognized that "the shift to smaller, more fuel efficient vehicles is permanent"⁴⁰ and Datamonitor noted in March 2009:

Consumers become more conscious of environmental issues and tough new ceilings on pollution and fuel efficiency standards being introduced in both the US and Europe, the growth of these 'green' trends puts further pressure on car manufacturers, particularly those who produce 'luxury' cars.⁴¹

Although, during a panel discussion at the May 2009 Green Car Congress⁴² it was observed that only 5% of U.S. consumers are willing to "pay more" for green products and that this figure is not expected to "skyrocket soon." Notably, one of the panelists suggested that attitude towards specific issues is often

³⁷ "Alan Mulally: The outsider at Ford," BusinessWeek, March 5, 2009

³⁸ Sources: Ford Motor Company 2008 Annual Report, Ford Motor Company Business Plan, Submitted to the Senate Banking Committee, December 2, 2008

³⁹ Since every customer applies different weights to each criterion, the list is not meant to suggest a ranking by importance or popularity

⁴⁰ "Ford Motor Company Business Plan Submitted to the Senate Banking Committee," December 2, 2008

⁴¹ Datamonitor "Global Automobiles Industry Profile," March 2009

⁴² Green Car Congress, "Automotive Market Research Perspectives on Selling 'Green' in a Try-to-Survive Market," May 2, 2009. Retrieved May 16, 2009, from <http://www.greencarcongress.com/2009/05/green-trouble-market-20090502.html>

"constant over one's lifetime." This could mean that the car industry must cultivate tomorrow's green car buyers today. In the interim, some current buyers may base their purchasing decisions also on the following additional selection criteria:

- Fuel economy: How far does the car drive before it needs a refill, and what does this refill cost?
- Sustainability: How do I reduce my effect on the environmental while remaining mobile?

Customer curiosity about the total cost of car ownership is not a novel concept. Yet, last year's oil price movements certainly shaped the renewed interest into this topic when gasoline prices peaked at \$4.14 in June 2008.⁴³ Ford is responding to this trend with a "sustainability plan,"⁴⁴ shown as Exhibit 1:

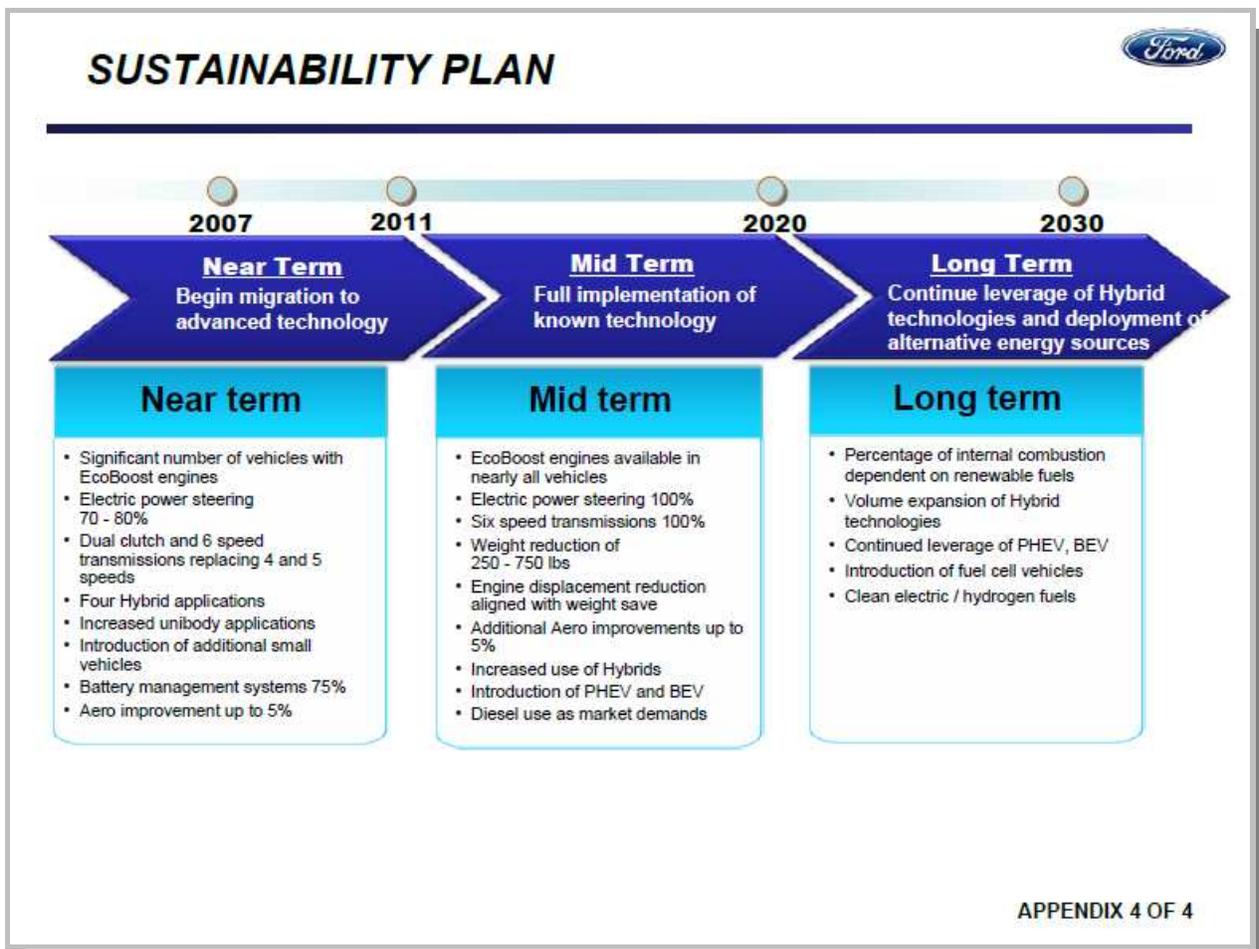


Exhibit 1: Ford Motor Company, Appendix 4, Ford Motor Company Business Plan, Submitted to the Senate Banking Committee, December 2, 2008

⁴³ Energy Information Administration, retrieved online from http://tonto.eia.doe.gov/dnav/pet/hist/mg_tt_usw.htm on May 16, 2009

⁴⁴ Appendix 4, Ford Motor Company Business Plan, Submitted to the Senate Banking Committee, December 2, 2008

With this phased approach, over time, Ford plans to reduce vehicle energy consumption through use of hybrid technologies, introduction of electric steering and 6-speed transmissions, and by developing advanced technologies that use alternative fuels. It is unknown, though, whether the now considerably lower oil price will change customer requirements again and revitalize demand for "big cars."⁴⁵

Ford Stakeholder Overview

Ford stakeholders fall in ten general groups:

- Workforce
- Departments / Work Groups
- Customers
- Suppliers
- Distribution Chain
- Interest-Promoting Organizations
- Investors/Shareholders
- Regulatory Institutions
- Industry Analysts & Opinion Makers
- Other Stakeholders

Table 1: Ford Motor Company Stakeholder Groups

Table 2a and 2b illustrate additional detail about these stakeholder groups.

Internal		
Workforce		Interests
<i>Salaried Workers (unionized) and Management</i>	Permanent full-time employees, including management	Healthcare/Benefits Compensation Job safety Sound firm leadership Training Flexible work arrangements
<i>Hourly Workers (non-union and unionized)</i>	Contracted or temporary workers, non-management, incl. consultants	Healthcare/Benefits Wages Sound firm leadership Flexible work arrangements
<i>Diversity (Aging, Baby Boomers, Generation Y, etc)</i>	Baby Boomers', not far away from retirement	Healthcare/Benefits Compensation/Wages Retirement Benefits (safe) Flexible work arrangements
<i>Board of Directors</i>	Provides governance and leadership oversight	Regulatory compliance Profitability of the firm Influence over management Sound strategy executed

⁴⁵ New York Times, "Ford's cheerleader and chief," May 23, 2009

<i>Workforce abroad</i>	I.e. employees, hourly workers, and retirees in South America, Europe, Asia Pacific Africa	- most of the above interests - Cultural sensitivity of the firm
Departments / Work Groups		Interests
<i>Management</i>	Non-union management team members	Success of business strategy: - Cost cutting - Product development - Effectiveness/Efficiency - Profits Management autonomy Board influence CEO leadership Union concessions Employee commitment/confide. Weak competitors Reliable suppliers Market share Customer demand/satisfaction Compensation Training/Development Flexible work arrangements
<i>Manufacturing</i>	Plants in which employees build vehicles	Reliable suppliers Customer demand Efficient production platform
<i>Administration</i>	Back-office functions, incl. Human Resources, Payroll, IT, Purchasing etc	Workflow input Profitability of the firm
<i>Financing Division</i>	Wholesale and retail credit products	Access to funds Asset management Value protection
<i>Marketing/Advertising</i>	Creative and production teams that advertise the brand to target customer groups	Brand excitement Consumer interest Consumer feedback
<i>Research and Development</i>	Product conception, design, testing	Creative freedom Innovation (i.e. electric) Funding Consumer preferences
<i>Subsidiaries</i>	I.e. Mazda minority share, Automotive Components Holdings LLC, Volvo	Firm leadership

Table 2a: Internal Ford Stakeholder Groups, Additional Information

External		
Customers		Interests
<i>Retail</i>	Individual buyers, all demographics (age, gender, income, etc)	Brand value Purchase price Fuel economy Vehicle safety/reliability/quality Warranty terms/service options Product features/performance Resale value Ecologic sustainability
<i>Institutional / Firms / Public agencies</i>	Business fleets (for employees or to deliver services/products), rental & leasing companies, public service agencies (i.e. police, fire, government)	Leasing/Financing terms Product reliability Resale value
<i>International customer segments (individual & institutional)</i>	see above	- most of the above interests - Cultural sensitivity of the firm
Suppliers		Interests
<i>Raw materials</i>	I.e. steel	Contractual obligations Demand
<i>Parts</i>	I.e. tires	Contractual obligations Demand
<i>Transportation</i>	Transportation of parts (in) and finished products (out)	Contractual obligations Demand
<i>Banks, Creditors</i>	Financing, debt management, securitization	Financial obligations Firm profits
<i>Labor/Services</i>	Outsourced services (non-core, i.e. cleaning)	Contractual obligations Demand
Distribution Chain		Interests
<i>Dealers</i>	Resellers in cities and towns	Customer demand Firm support Brand identification
<i>Distributors</i>	Resellers	Customer demand Firm support Dealer partnerships
<i>Auctioneers</i>	Sellers of used or repossessed cars	Customer demand Terms and conditions
Regulatory Institutions		Interests
<i>Federal Government/Agencies</i>	Federal Government, agencies incl. EPA, DOE, SEC, IRS	Economic stability Consumer spending Tax income Regulatory compliance Compliance with federal laws

<i>State Government</i>	Banking regulators, state administration, state tax	Tax income Regulatory compliance Compliance with state laws
<i>City Government</i>	City tax, police, fire, buildings department, etc	Tax income Low pollution/noise Compliance with local laws
Interest-Promoting Organizations		Interests
<i>Unions</i>	UAW, unions in Germany and Great Britain	Board influence Protecting labor interests Information transparency Fair negotiations
<i>Retired Employees</i>	Former Ford salaried or hourly employees with entitlements (i.e. benefits)	Healthcare Retirement Benefits (reliable)
<i>Family members</i>	Family members and relatives of active and retired employees and hourly workers	Healthcare Compensation Retirement benefits Flexible work arrangements (provided by/to the Ford employee, hourly worker, or retiree)
<i>Communities</i>	I.e. residents and businesses in vicinity to facilities, plants, and dealerships	Quality of life Related income/revenues Information transparency
<i>Lobbies (i.e. Green)</i>	I.e. HealthyCar.org	Sustainable operations Vehicle safety Product innovation (green) Information transparency
Industry Analysts & Opinion Makers		Interests
<i>Financial Analysts</i>	Stock market analysts that issue reports on the financial performance of the firm	Information transparency
<i>Credit Rating Agencies</i>	I.e. Moody's	Information transparency
<i>Consumer Reports</i>	Specialized magazines and other organizations that perform testing and issue reviews. I.e. "Cars" magazine; Insurance Institute for Highway Safety; JD Powers & Associates; includes industry analysts (i.e. S&P, Data Monitor)	Information transparency
<i>Media outlets</i>	General interest media	Information transparency
Investors/Shareholders		Interests
<i>Individual</i>	Individual shareholders	Superior stock returns
<i>Institutional</i>	Funds, investment banks, etc	Superior stock returns Information transparency

<i>Ford Family</i>	Ford is 40% family owned	Superior stock returns Retaining control
Other Stakeholders		Interests
<i>Competitors</i>	GM, Chrysler, Honda, Daimler, VW, etc.	Market share Revenues Innovative advantage
<i>Oil industry & Gas stations</i>	Oil producers (not diversified) and retail gasoline networks	Revenues from car users Slow electric innovation
<i>Electrical industry</i>	Producers, suppliers, retailers, network operators	Fast vehicle innovation New markets

Table 2b: External Ford Stakeholder Groups, Additional Information

From analyzing stakeholder's relative influence and potential impact of their actions, the heatmap shown in Exhibit 2 emerged.⁴⁶

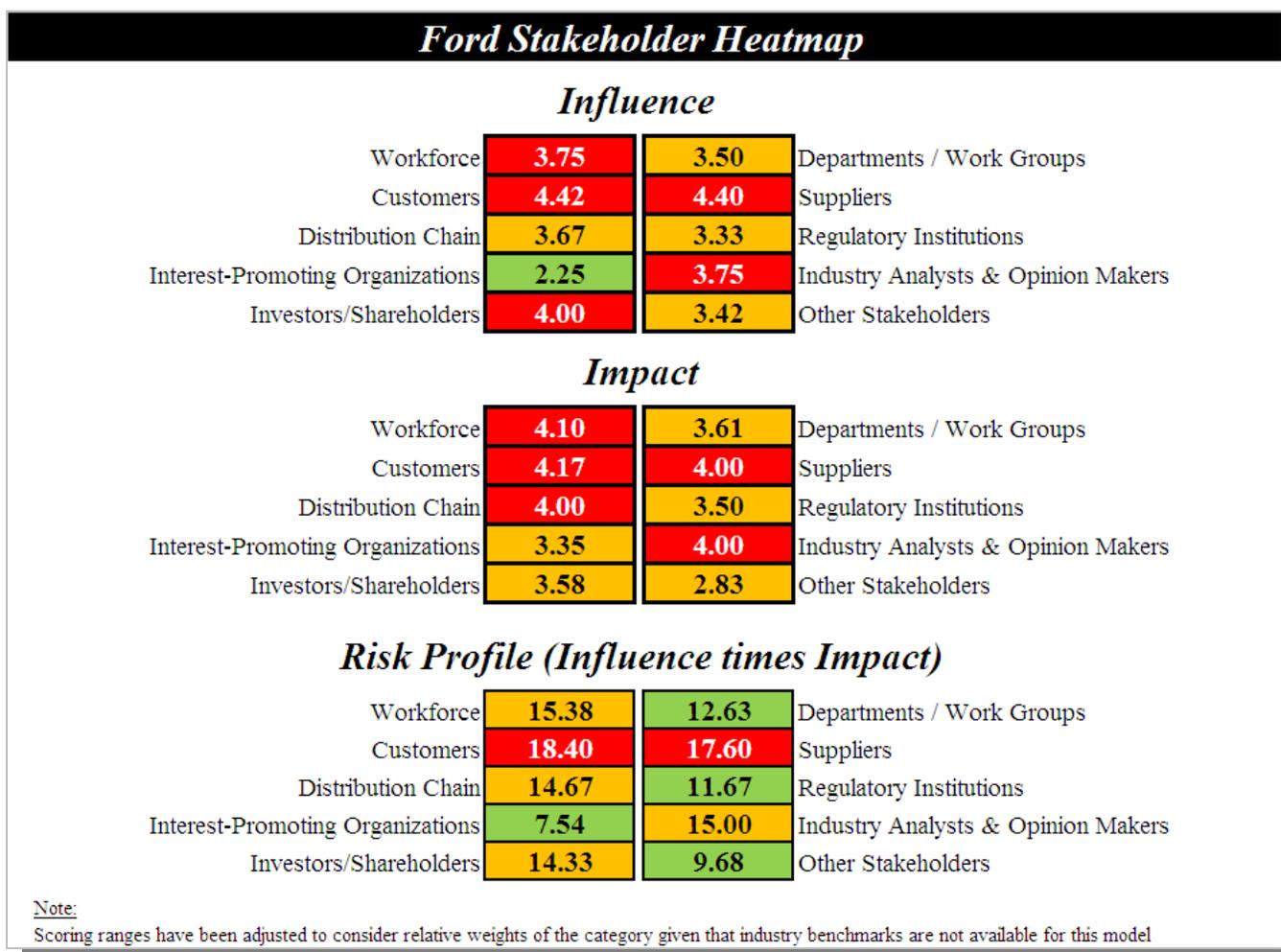


Exhibit 2: Ford Motor Company Stakeholder Heatmap

⁴⁶ To review the detail analysis, please refer to the Excel chart supplied with this paper.

This assessment is highly subjective. Influence and impact were scored on a scale of 1 to 5, and a higher score indicates higher influence and higher potential impact respectively. Influencing power was scored subjectively considering the possible actions of a stakeholder group. For example, employee resource withholding generally weighs higher than activist group lobbying given the different consequences for production and sales. Similarly, impact was scored taking the probable consequences of stakeholder activity into consideration. For example, a supply- or distribution chain disruption and reputational damage from activist lobbying could affect Ford considerably. By multiplying influence and impact, we obtain a score for each category. The resulting risk profile suggests where Ford's leadership should concentrate its stakeholder management efforts: Ford should prioritize managing Customer and Supplier relationships, followed by the Workforce, Industry Analysts & Opinion Makers, Distributors, and Investors / Shareholders stakeholder groups. The following assumptions explain the low scores for the remainder of the categories:

- Departments and Workgroups: Low score is acceptable since influencing power and potential impact are accounted for in the Workforce category.
- Regulatory Institutions: This score is expected to be higher than the score for Interest-Promoting Organizations given the different levels of influence of these two stakeholder groups. The score is also acceptably low since all automobile manufacturers are subject to regulatory influences and because Ford kept government influence low by not accepting bailout funds⁴⁷
- Other: Encompasses energy industries, exhibiting interests but possessing low influencing power, and competitors (notably, GM and Chrysler, which have filed for bankruptcy protection⁴⁸)
- Interest Promoting Organizations: This category contains both, unions (high influence/impact), and family members who are entitled to benefits through current and former Ford employees (low influence/impact). Combined, their scores result in a low average. This is acceptable, since

⁴⁷ New York Times, "Ford's cheerleader and chief," May 23, 2009

⁴⁸ The Associated Press, "GM and Chrysler's bankruptcy cases at a glance," June 3, 2009

unions mostly provide infrastructure for labor action and because the influencing power and potential impact of the workforce are shown separately in the Workforce category.

Review of Stakeholder Management Theories

Jeff Frooman⁴⁹ argued that it is also important for a firm to understand how stakeholders influence the firm (as opposed to the firm influencing stakeholders), and that firms should be conscious of the "different types of influence" and "determinants of the choice of influence strategy." He found that there exists "four types of stakeholder influence strategies" (Withholding, Usage, Direct, and Indirect), and "four types of firm-stakeholder relationships" (Firm power, High interdependence, Low interdependence, and Stakeholder power). Frooman's thesis is that "the type of relationship is a determinant of the choice of influencing strategy" and that stakeholder power emerges from the firm's "dependence ... on environmental actors ... for resources that gives those actors leverage over a firm." Stakeholders then choose a strategy and exert their influence by withholding a resource or attaching conditions to the usage of a resource over which the stakeholder maintains control. In either case, the stakeholder also chooses between a direct strategy (seeking direct influence over the firm), or an indirect strategy (influencing a critical path the firm depends on⁵⁰). The author then goes on to propose a specific mapping of strategies and relationships:

<u>Firm-stakeholder relationship type</u>		<u>Stakeholder Influence Strategies</u>
• Firm power	⇒	• Indirect usage
• High interdependence	⇒	• Direct usage
• Low interdependence	⇒	• Indirect withholding
• Stakeholder power	⇒	• Direct withholding

Table 3: Mapping of Strategies to Relationship Types

⁴⁹ "Stakeholder influence strategies," *Academy of Management Review*, 1999, Vol. 24, No. 2

⁵⁰ For example, a strike at one of Ford's suppliers could influence the firm's stance towards an issue, and constitutes an indirect influence

Pursuing the indirect-usage strategy may be cumbersome if the firm holds power, and assumes that a critical path item exists that can be attacked by the stakeholder. The indirect-withholding strategy assumes a dependency in a low interdependence relationship, and therefore is likely the most difficult strategy for a stakeholder to manage given his/her remoteness. The direct-withholding strategy is the most effective (followed by direct-usage), given the nature of the power and dependency relations.⁵¹ However, both strategies could permanently taint the relationship of the stakeholder with the firm.

Berman et al⁵² analyzed firm's "stakeholder posture" and confirmed empirically that only employee relationship conditions and "safety/quality" aspects of a customer relationship⁵³ "directly [affect] financial performance."⁵⁴ Their conclusions: "managers may be better off isolating these two stakeholder relationships from other strategy dimensions, such as cost efficiency, asset parsimony, and (marketing) differentiation,"⁵⁵ since "fostering positive connections with key stakeholders can help firm profitability." As a result, they argue, these two variables can be "a source of differentiation for an individual firm."

A paper by Jeffrey S. Harrison and Caron H. St. John⁵⁶ discusses how to manage and partner with external stakeholders. Their conclusions are:

1. "Stakeholder management activities" need to be planned effectively
2. "Key stakeholders" and their "strategic importance" should be understood
3. The "importance of the stakeholder" and the "strength of the alliance" are positively correlated
4. Key behavioral aspects of the firm when "forming a strategic partnership" with an external stakeholder should include:
 - a. Commitment to the relationship, frequent communications, and information sharing
 - b. Clear definition of expectations and use of joint conflict resolution techniques
 - c. Averting "excessive trust" and "[retaining] some control over outcomes"
 - d. "Proactive" pursuit of "partnering techniques" to "create organizational flexibility"

⁵¹ Customers, for example would withhold their funds when they choose to purchase a Chrysler vehicle instead of a Ford

⁵² Shawn L. Berman, Andrew C. Wicks, Suresh Kotha, and Thomas M. Jones, "Does stakeholder orientation matter? The relationship between stakeholder management models and firm financial performance," *Academy of Management Journal*, 1999, Vol. 42, No. 5

⁵³ Relevant to Ford given the industry's emphasis of quality and safety

⁵⁴ The remaining three variables are: "Community," "Diversity," and "Natural Environment"

⁵⁵ Asset parsimony suggests scarce investments into assets required by the firm to operate

⁵⁶ "Managing and partnering with external stakeholders," *Academy of Management Executive*, 1996, Vol. 10, No. 2

The authors assert that firms enjoy significant benefits when managing external stakeholders effectively:

... instrumental outcomes include (1) improved predictability of changes in the external environment resulting from better communication with external stakeholders ..., (2) higher percentages of successful innovations resulting from the involvement of stakeholders in product/service design teams, and (3) fewer incidents of damaging moves by stakeholders ... due to the improved relationships and greater trust.

Exhibit 3 lists the author's suggested "Tactics for managing and partnering with external stakeholders."

Harrison and St. John

Table 2
Tactics for Managing and Partnering with External Stakeholders

Stakeholder	Stakeholder Management Tactics	Stakeholder Partnering Tactics
CUSTOMER	Customer service departments Marketing research Advertising On-site visits 800 Numbers Long-term contracts Product/service development Market development	Customer involvement on design teams Customer involvement in product testing Joint planning sessions Enhanced communication linkages Joint training/service programs Sharing of facilities Financial investments in customer Appointment to board of directors
SUPPLIERS	Purchasing departments Encourage competition among suppliers Sponsor new suppliers Threat of vertical integration Long-term contracts	Supplier involvement on design teams Integration of ordering system with manufacturing (i.e., Just-in-Time Inventory) Joint information systems/jointly developing new products and applications Coordinated quality control (i.e., T.M.) Simultaneous production
COMPETITORS	Product and service differentiation Technological advances Innovation Speed Price cutting Market segmentation Intelligence systems Corporate espionage*	Kieretsu* Joint ventures for research and development Joint ventures for market development Collective lobbying efforts Informal price leadership or collusion* Industry panels to deal with labor and other problems Mergers (horizontal integration)
GOVERNMENT AGENCIES/ ADMINISTRATORS	Legal departments Tax departments Government relations departments Individual firm lobbying efforts Campaign contributions Individual firm political action committees Self-regulation Personal gifts to politicians*	Consortia on international trade and competitiveness Jointly or government-sponsored research Joint ventures to work on social problems such as crime and pollution Joint foreign development projects Panels on product safety Appointment of retired government officials to the board of directors Participation in government-sponsored initiatives
LOCAL COMMUNITIES/ GOVERNMENTS	Community relations offices Public relations advertising Involvement in community service/politics Local purchases of supplies Employment of local workers Donations to local government organizations Donations to local charities Gifts to local government officials*	Task forces to solve skilled-labor shortages Joint urban renewal programs Cooperative training programs Development committees/boards Employment programs for workers with special needs such as the handicapped Joint education programs
ACTIVIST GROUPS	Internal programs to satisfy demands Public/political relations efforts to offset or protect from negative publicity Financial donations	Consultation with members on sensitive issues Joint ventures for research/research consortia Appointment of group representatives to board of directors Jointly sponsored public relations efforts
UNIONS	Avoid unions through high levels of employee satisfaction Avoid unions by thwarting attempts to organize* Hiring of professional negotiators Public relations advertising Chapter XI protection	Mutually satisfactory (win-win) labor contracts Contract clauses that link pay to performance (i.e., profit sharing) Joint committees on safety and other issues of concern to employees Employee development programs Joint industry/labor panels Labor leaders appointed to board of directors included in major decisions

* These tactics are of questionable ethical acceptability to some internal and external stakeholders in the U.S. and elsewhere.

53

Exhibit 3: Harrison and St. John, Tactics for Managing and Partnering with External Stakeholders⁵⁷

⁵⁷ From their paper "Managing and partnering with external stakeholders," Academy of Management Executive, 1996, Vol. 10, No. 2

What is Competitive Advantage?

Porter⁵⁸ wrote that some firms fail to distinguish between operational effectiveness and strategy as a competency. Both are needed and not mutually exclusive but "work in different ways." A firm outperforms rivals only if it establishes and preserves a *difference* by delivering greater value, delivering at lower cost, or achieving both. Competition on operational performance is "mutually destructive" and leads to "a race no one can win." Porter highlights the following aspects of strategy implementation:

- Making disciplined choices of different business actions or performing them differently
- Integrating and executing the chosen actions well and closely aligned with customer needs
- Using a "variety-based," "access-based," or "needs-based" approach on positioning
- "Making choices" and tolerating "trade-offs" help to remain focused when executing actions
- "Fit" amongst value-creating choices "creates competitive advantage"

Or much shorter: 1. Capabilities determine strategy – demand does not. 2. Strategy can be successful if there is appropriate focus on complementary actions. 3. Strategy means depth, not breadth.

The consultancy DDI linked employee motivation to "competitive advantage"⁵⁹ and determined that employees enjoy work when "interests and ... skills [match]," "tend to be more engaged" when making "meaningful contributions," and feel valued when they are rewarded/recognized.⁶⁰ The authors suggest that firms measure engagement and address causes of low engagement due to "four primary drivers:"

1. A study revealed that intangibles, including employees, are increasingly sources of a firm's value
2. Companies are increasingly interested to avoid "talent shortage" and minimize "cost of turnover"
3. Employee engagement can be realized by a firm with modest effort
4. Many studies have confirmed the benefits of employee engagement

⁵⁸ Michael Porter, "What is Strategy?" Harvard Business Review, November – December 1996

⁵⁹ "Employee engagement: the key to realizing competitive advantage," Richard S. Wellins, Paul Bernthal, and Mark Phelps. DDI, 2006

⁶⁰ Ibid

The association of employee engagement and organization performance⁶¹ is in line with Porter's thesis,⁶² as a highly motivated workforce becomes a differentiating factor for Ford and other firms.

Promoting Interests and Competitive Positioning through Stakeholder Management

This section provides an overview the recommendations for Ford's leadership, in order of priority. Prior to implementing influencing strategies, though, Ford should assess the maturity of its stakeholder management approach using Bourne's "Stakeholder Relationship Management Maturity" (SRMM) methodology⁶³. The five levels of this maturity model⁶⁴ are shown in Exhibit 4:⁶⁵

The five Levels of SRMM[®]						
SRMM Stages	Standard processes	Central support	Org-wide use	Beyond projects	Typical 'stakeholder communities'	Risk handling & 'health reviews'
1. Ad hoc: some use of processes	Some	No	No	No	No	No
2. Procedural: focus on processes and tools	Yes	Some	No	Some	No	No
3. Relational: focus on the stakeholders and mutual benefits	Yes	Yes	Some	Some	Some	No
4. Integrated: methodology repeatable, integrated	Yes	Yes	Yes	Some	Some	Some
5. Predictive: health checks and other predictive assessments	Yes	Yes	Yes	Yes	Yes	Yes

Exhibit 4: SRMM Overview

⁶¹ "Employee engagement: the key to realizing competitive advantage," Richard S. Wellins, Paul Bernthal, and Mark Phelps. DDI, 2006

⁶² Michael Porter, "What is Strategy?" Harvard Business Review, November – December 1996

⁶³ "Advancing theory and practice for successful implementation of stakeholder management in organizations," International Journal of Managing Projects in Business, Vol. 1, No. 4, 2008, pp. 587-601, and "SRMM Stakeholder Relationship Management Maturity," PMI Global Congress EMEA 2008, retrieved May 16, 2009, from http://www.mosaicprojects.com.au/Resources_Papers_067.html

⁶⁴ Derived from Carnegie Mellon's Software Engineering Institute "Capability Maturity Model," see <http://www.sei.cmu.edu/cmml/>

⁶⁵ Source: "SRMM Stakeholder Relationship Management Maturity," PMI Global Congress EMEA 2008, retrieved May 16, 2009, from http://www.mosaicprojects.com.au/Resources_Papers_067.html

Stakeholder management capability can be determined by use of the following evaluative questions:

- Standard process: To what extent does the firm use a "standard methodology" that effectively governs stakeholder management?
- Centralized support: How effective are the firm's resources (training, manuals, and dedicated resources) in support of stakeholder management?
- Organization-wide use: To what degree has a consistent approach on stakeholder management penetrated other areas of the organization?
- Beyond projects: To what extent has the application of a stakeholder management approach been replicated in other functions (or operations) of the organization?
- Typical stakeholder communities: How formal and exhaustive is the approach on identifying, collecting, organizing, and analyzing data on stakeholder groups?
- Risk handling and health reviews: Does the firm use its approach on stakeholder management to assess risks and health-checks?⁶⁶

The SRMM model will likely have to be adjusted upon further analysis to meet Ford's needs. The completed maturity assessment then will provide additional indicators that allow Ford to better prioritize in which order to engage stakeholder groups or areas of its organization. The results of the maturity assessment should be viewed in context with the results evident from the stakeholder heatmap (Exhibit 2). Using ideas from Froman and Harrison & St. John,⁶⁷ and based on the findings exhibited in the stakeholder heatmap, we developed an initial stakeholder activity matrix (Table 4), which illustrates high-level tactics for each internal and external stakeholder group. Additional useful findings from the maturity assessment may cause a further refinement of the activity matrix. We discuss detailed rationales and recommendations on the pages that follow.

⁶⁶ Defined in a project context, by the author of the paper, as a "normal" condition, suggesting that related work is completed without notable disruption.

⁶⁷ See previous discussion of stakeholder management theories

Ford Stakeholder Activity Matrix

Group	Score	Type	Relationship*	Stakeholder Strategy*	Ford's Strategy**
Customers	18.40	External	Stakeholder power	Direct withholding	Marketing research Customer involvement on design teams/testing Product/service development Customer service departments Advertising
Suppliers	17.60	External	High interdependence	Direct usage	Supplier involvement on design teams Coordinated quality control Jointly developing of new products Relationship management
Workforce	15.38	Internal	High interdependence	Direct usage	Employee development programs
Industry Analysts & Opinion Makers	15.00	External	Firm power	Indirect usage	Relationship management Public Relations Information transparency
Distribution Chain	14.67	External	High interdependence	Direct usage	Relationship management Jointly developing of new products Marketing research
Investors/Shareholders	14.33	External	Low interdependence	Indirect withholding	Relationship management Public Relations Information transparency Programs to satisfy demands
Departments / Work Groups	12.63	Internal	Stakeholder power	Direct withholding	Employee development programs Relationship management Programs to satisfy demands Joint committees/panels
Regulatory Institutions	11.67	External	Firm power	Indirect usage	Self-regulation Government relations departments Appointment of government retirees to board Joint committees/panels
Other Stakeholders	9.68	External	Firm power	Indirect usage	Relationship management Consultation Joint Ventures for research
Interest-Promoting Organizations	7.54	External	Firm power	Indirect usage	Relationship management Programs to satisfy demands Public relations Donations (where appropriate) Joint committees/panels

* Jeff Frooman, "Stakeholder influence strategies," *Academy of Management Review*, 1999, Vol. 24, No. 2

** Adapted from Jeffrey S. Hamson and Caron H. St. John, "Managing and partnering with external stakeholders," *Academy of Management Executive*, 1996, Vol. 10, No. 2

Table 4: Stakeholder Activity Matrix

The rationales for each recommendation shown above are as follows:

Customers

Ford has a vital interest in preventing customers to "withhold," meaning that they would purchase a different brand. To motivate potential car buyers to purchase its products, Ford must develop them to meet customer requirements. Understanding requirements through "Marketing research," "Customer involvement on design teams/testing," and "Product/service development" will enable Ford to detect changes in customer requirements early. Specifically, Ford should stage road shows in its target markets to inform customers about its quality record, product roadmap (i.e. towards greener vehicles), and

service/warranty options.⁶⁸ An essential component should be displaying new models and allowing visitors to experience Ford products. Ford should also continue to execute its advertising strategy.

Suppliers

Ford's suppliers are under pressure since Chrysler and GM Motors filed for bankruptcy protection.⁶⁹ Given the shared supplier dependencies,⁷⁰ Ford would be impacted negatively should a critical supplier cease operations due to the falling demand from Chrysler and GM. Through "Supplier involvement on design teams," "Jointly developing of new products," and "Relationship management" Ford's management will be able to deepen existing relationships. Additionally, however, Ford should use its considerable cash reserve (\$21bn as of March 31, 2009⁷¹) to aid suppliers at risk of failing.

Workforce

Please refer to Deliverable #6 for this project, titled "Ford Motor Company: Workforce Motivation." To influence this stakeholder group, Ford should pursue a comprehensive "employee engagement"⁷² strategy, which is discussed in the aforementioned document.

Industry Analysts & Opinion Makers

Given existing reports of a culture that did not promote openness and emphasized rationalization of mistakes,⁷³ Ford's leadership should mandate information transparency when engaging with analysts and opinion makers.⁷⁴ External communications should still be vetted through the appropriate review and approval functions. "Relationship management," "Public Relations," and "Information transparency" mechanisms, however, should be used to institutionalize a willingness of Ford employees and managers to listen (for example, when magazines or testers review products), and to communicate information more openly when engaging in a dialog with these stakeholders. Two specific measures are:

⁶⁸ This activity would permit simultaneous marketing research and advertising

⁶⁹ The Associated Press, "GM and Chrysler's bankruptcy cases at a glance," June 3, 2009

⁷⁰ "Industry Survey Autos & Auto Parts," Efraim Levy, Standard & Poors, December 25, 2008

⁷¹ The Washington Times, "Ford's quarterly loss less than expected," April 25, 2009

⁷² Corporate Leadership Council, "Business case for measuring employee engagement rather than satisfaction," October 2006

⁷³ BusinessWeek, "Alan Mulally: The outsider at Ford," March 5, 2009; "The new heat on Ford," May 29, 2007; CNN Money, "Fixing up Ford," May 12, 2009

⁷⁴ These include industry analysts, financial analysts, financial ratings agencies, as well as product and quality review organizations

- Releasing unfavorable information about Ford more often to support the notion that Ford is an open organization
- Frequently exposing senior managers, particularly from design teams but also from other Ford departments, to product review experts from firms such as Consumer Reports⁷⁵ and J.D. Power⁷⁶

Distribution Chain

Ford dealers and distributors operate at the forefront of the automobiles market and can detect changing customer sentiment early. To complement information gathered from marketing research and product reviews at organizations such as Consumer Reports and J.D. Power, and since Ford has demonstrated past ignorance of some stakeholders' opinions,⁷⁷ it should implement programs to emphasize "Relationship management" and promote "jointly developing of new products." Specifically, Ford should involve dealerships when scheduling and executing road shows, invite them to participate in previously mentioned product reviews, and engage organizations such as J.D. Power and Consumer Reports already in the design phase (rather than obtaining feedback on the finished product).

Investors/Shareholders

This group of shareholders desires optimized returns on their investment. The current economic climate and declining demand forced Ford, and other automobile makers, to restructure their organizations, release employees, close plants, and terminate dealer franchises.⁷⁸ Ford announced its plans to return to profitability by 2011.⁷⁹ In the meantime, Ford's leadership should proactively communicate information about its performance according to its business plan to existing and potentially interested new investors. By 2011, or as early as is financially reasonable, Ford should also pay an extraordinary dividend to those investors who held or bought shares since the firm announced its restructuring plan. This measure rewards those investors who remained loyal to Ford during these difficult times.

⁷⁵ <http://www.consumerreports.org>

⁷⁶ <http://www.jdpower.com>

⁷⁷ "Ford and the American dream," Clifton Lambreth

⁷⁸ "Ford Motor Company Business Plan Submitted to the Senate Banking Committee," December 2, 2008

⁷⁹ Ibid

Departments / Work Groups

This stakeholder group entails two subgroups:

- Internal company departments and workgroups comprising of Ford employees, which the "Workforce" stakeholder group already accounts for
- Subsidiaries, which we will not address in this work since Ford is actively reducing its engagement in "non-core assets"⁸⁰

Regulatory Institutions

Relationship management requirements for most regulatory bodies are self-evident from mandated filing requirements and the law. Ford can increase its influence otherwise by engaging in "joint committees/panels" and, for example, help define emissions standards for the future, which is on the current U.S. administrations' agenda.⁸¹ Of note is that Ford has appointed a "government [retiree] to [its] board:" Richard A. Gephardt, former Majority Leader of the U.S. House of Representatives.⁸² The firm should continue to take advantage of these and other relations to the government to help define political and government agendas that may affect its operations, market share, and profitability.

Other Stakeholders

This group comprises firms in the same and other industries, which either are a threat to Ford (competitors), potentially threatened by Ford (the oil industry⁸³), or see Ford as an enabler of their future products (i.e. suppliers for electrical components and energy). Given that the current influence of this stakeholder group is low, Ford could enhance its "Relationship management" to seek "Consultation" and "Joint Ventures for research" in the future. For example, when the economic climate is more favorable

⁸⁰ "Ford Motor Company Business Plan Submitted to the Senate Banking Committee," December 2, 2008

⁸¹ See <http://www.forbes.com/2009/05/18/fuel-economy-standard-business-washington-autos-emissions.html>

⁸² Source: <http://www.ford.com/about-ford/company-information/corporate-governance/board-of-directors/board-of-directors-801p>

⁸³ I.e. since Ford develops cars that reduce gas consumption

and standards for greener cars were finalized,⁸⁴ Ford should assess opportunities resulting from joint ventures within the automobile industry⁸⁵ and with manufacturing firms in other industries.

Interest-Promoting Organizations

Unions are significantly influential. Ford has already demonstrated its ability to manage an effective relationship with the UAW, as evidenced by the signing of a "transformational labor agreement" resulting in significant savings.⁸⁶ The firm should continue its effective approach on "Relationship management" with the unions. It is likely difficult in the near future to implement "Programs to satisfy demands" given the current economic climate. However, should Ford's 2008 business plan⁸⁷ result in the outcomes desired, it should return concession made by the unions as soon as possible. Additionally, Ford should design a "Public relations" program that specifically targets the remaining constituencies in this stakeholder group, and their individual interests. Specifically, green lobbyists who care about the environment and sustainable technologies, and communities affected by plant closures should be of Ford's consideration in this program. "Donations (where appropriate)" and "Joint committees/panels" may allow influencing local communities in particular.

Conclusion: Stakeholder Management at Ford

Ford's executive leadership has demonstrated that it understands the importance of stakeholder management. Besides gaining union concessions to realize cost savings,⁸⁸ the firm also completed a "recapitalization" of its balance sheet⁸⁹ and appointed a former Government official to its board.⁹⁰ These measures required influencing managers, the UAW, and employees (to agree to concessions), and investors, banks, and the board (to approve the recapitalization and change of the board's composition).

⁸⁴ See <http://www.washingtonpost.com/wp-dyn/content/article/2009/05/18/AR2009051801848.html>

⁸⁵ For example, the now defunct Ford-Mazda joint venture ("Ford Motor Company Business Plan Submitted to the Senate Banking Committee," December 2, 2008) and GMs engagement with Toyota ("Industry Survey Autos & Auto Parts," Efraim Levy, Standard & Poors, December 25, 2008)

⁸⁶ "Ford Motor Company Business Plan Submitted to the Senate Banking Committee," December 2, 2008

⁸⁷ Ibid

⁸⁸ Ibid

⁸⁹ Alan Mulally: The outsider at Ford," BusinessWeek, March 5, 2009

⁹⁰ Source: <http://www.ford.com/about-ford/company-information/corporate-governance/board-of-directors/board-of-directors-801p>

Active stakeholder identification, classification, prioritization, and relationship management has attractive rewards for Ford. Harrison and St. John found that stakeholder management "creates and preserves organizational flexibility." Berman et al asserted that good stakeholder management in two specific dimensions (employees and safety/quality aspects in customer relationships) leads to competitive advantage. More specifically, effective stakeholder management allows Ford:

- Accessing and maximizing the benefit from resources controlled by stakeholders
- Eliminating barriers and executing the firm's business plan effectively
- Managing complex relationships with relative ease
- Avoiding or resolving conflict with stakeholders or about resources
- Securing competitive advantage through differentiation, by emphasis on employees/quality

In summary, Ford should pursue the following priority items in its stakeholder management strategy:

1. Complete a stakeholder management maturity assessment to refine priorities
2. Implement a comprehensive "employee engagement"⁹¹ program
3. Schedule product roadshows in key markets
4. Aid suppliers financially and engage them in the product design process
5. Maintain openness towards analysts and opinion makers by admitting to mistakes more often, and by frequently exposing Ford managers and employees to product review experts
6. Engage dealers in product development, roadshows, and when participating in product reviews
7. Plan an extraordinary dividend in 2011 for loyal investors (included should be a communications program throughout 2010 that keeps investors informed about progress towards this goal)
8. Participate in joint committees with Government officials and ventures with manufacturing firms to influence policy and develop opportunities for future profitable markets
9. Implement a public relations effort to engage green lobbyists and local communities

⁹¹ Corporate Leadership Council, "Business case for measuring employee engagement rather than satisfaction," October 2006

Ford can employ existing methodologies and theories to refine its already successful approach on managing internal and external stakeholders. This paper encourages several mechanisms to manage Ford's diverse stakeholders and promote the interests of the organization. Ford, however, should accentuate "employee engagement"⁹² and product safety/quality aspects of its operations.⁹³ Good stakeholder relationships in these two dimensions promise improved financial performance (see Berman et al) and competitive differentiation when the firm delivers the safest vehicles with the best quality (see Porter). No matter how rough or smooth the road ahead may be, it generally makes sense for Ford to have reliable co-drivers (stakeholders) while it is in the driver's seat (not bankrupt).

⁹² Corporate Leadership Council, "Business case for measuring employee engagement rather than satisfaction," October 2006

⁹³ Shawn L. Berman, Andrew C. Wicks, Suresh Kotha, and Thomas M. Jones, "Does stakeholder orientation matter? The relationship between stakeholder management models and firm financial performance," *Academy of Management Journal*, 1999, Vol. 42, No. 5

This paper is provided free of charge and “as is”. You may download, print, and distribute as many copies as you wish.

You must not:

- 1) Store an electronic copy of this paper on any systems accessible through the Internet for personal or commercial benefit, whether such benefit may be monetary or in any other form
- 2) Require a fee or subscription for providing access to this paper
- 3) Remove this page from the paper

Should you have been charged a fee in order to obtain a copy of this paper, please contact Oliver Schneidemann via <http://www.schneidemann.com>