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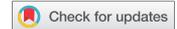
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Stakeholders and Business Strategy: A Role-Play Negotiation Themed Exercise

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ABSTRACT

Consideration of the interests of stakeholders as well as the potential impact of stakeholders on company decisions provides critical insight into dimensions of strategic decision making that may be overlooked using traditional strategy frameworks. Using a case based on a manufacturing company's deliberation of a decision to send offshore the manufacturing of its core products, this exercise exposes students to a variety of stakeholder perspectives through a role-play negotiation-themed exercise. Students adopt the roles of top management, labor representative, local supplier, customer representative, city manager, environmental activist, and shareholder representative. The negotiation activity is designed to raise student awareness of the importance of stakeholder analysis in the strategic decision-making process.

Keywords

stakeholder; stakeholder analysis; strategic decision making; experiential learning; role-play

Introduction

In most undergraduate business programs, students take a “Business Strategy” course as one of their last core business requirements. The study of strategic management and strategic decision making is integrative, as it brings together student learning from various business functional areas, as well as learning from their foundational courses beyond business. In most business strategy courses, students are exposed to a variety of theories and frameworks, including STEEP,¹ Porter's Industry Forces,² the Resource Based View,³ and SWOT⁴ analysis. These approaches are used to analyze strategic issues and make strategic decisions. Beyond these frameworks, the analysis of stakeholders who are affected by such decisions or can potentially impact the execution of the strategic decisions is important but sometimes given short shrift in strategic management (Post, Preston, & Sachs, 2002). According to Freeman and McVea, the “stakeholder approach remains a powerful and under-exploited theory of business strategy” (2001, p. 14), and Post, Preston, and Sachs point out that “the strategic implications of Freeman's work have not been fully realized” (2002, p. 6). In terms of student learning in the management classroom, this often manifests itself in students' synonymous use of the terms *shareholder* and *stakeholder*. This experiential exercise is designed to raise student awareness of this critical dimension of strategic decision making. It engages students in a stakeholder role-play negotiation-

themed exercise designed to deepen student understanding of stakeholder interests and their potential power to impact strategic decisions, as well as the nature of stakeholder and firm interdependence.

Stakeholder theory and strategic management

R. Edward Freeman (Freeman, 1984, 2010) is considered the pioneer of the stakeholder management approach. He laid important groundwork in recognizing the role of stakeholders in the strategic management process (Freeman, 1984, 2010). Freeman defined stakeholders as “any group or individual who can affect, or is affected by, the achievement of the organization's objectives” (1984, p. 46). It is this definition that is adopted for purposes of this exercise.

In strategy, a stakeholder business mindset focuses on stakeholder relationships and on “how stakeholders interact to create value” (Freeman, Harrison, Wicks, Parmar, & de Colle., 2010, p. 24). Fundamental to this approach is the recognition that stakeholders have interests that should be considered in managing such relationships. In fact, Evan and Freeman defined the purpose of the firm as *a vehicle for coordinating stakeholder interests* (Evan & Freeman, 1988, p. 103). Underlying this notion is the assumption that top managers will facilitate such coordination. Managerial coordination efforts begin with the recognition of the needs and interests of the various stakeholders and moves toward an understanding of how such interests

interact. Given the stakeholder view of the firm as “a series of multilateral contracts among stakeholders” (Freeman & Evan, 1990, p. 354), balancing conflicting claims is at the heart of the stakeholder approach to strategic management. Rather than controlling such divergence, the stakeholder approach focuses on balancing such claims. Stakeholder theory further assumes that managerial roles and behavior may extend beyond the coordination and balancing of interests to the negotiation of conflicting claims. Given the orientation of this approach, adopting a role-play negotiation-themed activity to enhance student understanding of the importance of stakeholder analysis in strategic decision making is appropriate.

Stakeholders and strategic management: pedagogical approaches to teaching

In the strategic management classroom, case method is a long-standing approach to teaching that continues to be used extensively today (Alstete & Beutell, 2016). It is an active learning pedagogy that lends itself to “interdisciplinary thinking” (Greiner, Bhambri, & Cummings, 2003, p. 401), integration, synthesis, and critical thinking. With its emphasis on “doing,” case method draws upon learning through experience (Greiner et al., 2003, p. 403). However, the use of case method as the “sole” approach to teaching business strategy may pose limitations (Alstete & Beutell, 2016; Sparks & Langford, 2013). Other classroom teaching methods can be used effectively in concert with cases to enhance student learning, including corporate computer simulations (Arias-Arand, 2007; Mitchell, 2004) and strategy consulting projects (Kunkel, 2002).

In addition to computer simulations and consulting projects, the use of experiential exercises can provide instructors with alternative approaches to teaching strategy. Learning through these exercises results from the creation of knowledge through the “combination of grasping and transforming experience” (Kolb, 1984, p. 41). Joshi, Davis, Kathuria, and Weidner (2005) posit that experiential exercises can complement the case approach to enhance student learning (Joshi et al., 2005). However, the authors suggest that the emphasis on case method in teaching undergraduate strategy students has actually discouraged the development and use of experiential learning exercises.

Indeed, there appears to be a gap in published sources with respect to experiential, negotiation-type role-play exercises that address stakeholder issues from a firm strategy perspective. We found two recent exercises that made use of a negotiation theme, but those exercises focused specifically on sustainability

(Collins & Kearins, 2007) and business ethics (Reade, Todd, Osland, & Osland, 2008), as opposed to strategic decision making more broadly. There appears to be a dearth of published articles using experiential exercises to teach the stakeholder approach to strategic management. The exercise presented in this article fills this gap and extends the use of experiential exercises as a complement to traditional case method and an effective teaching pedagogy in the strategy classroom. It is designed to enable students to develop a deeper understanding of business stakeholders through a role-play experience.

Description of the exercise

Overview of the exercise

In this experiential exercise, the students take on the roles of key stakeholders affected by a potential strategic decision being considered by Alphom Manufacturing Company and its highest revenue-generating division, Gamma. Gamma, with its 50-year history in Bedford Falls, is faced with increasing overseas competition from lower priced competitors and cost pressures stemming from high taxes, aging facilities, high local supplier prices, and high labor rates. In addition, Gamma’s acquisition of a former local supplier left the company vulnerable to the criticism of environmental groups that contend that the acquired site is the source of groundwater and waterway pollution. Alphom has been aggressively exploring opportunities to send offshore production of its products, including products currently produced by Gamma in Bedford Falls. Under immense pressure from Alphom’s top management and intense competitive forces, Gamma’s Division Manager launched a major negotiating effort with employees (Labor Union Representative), local suppliers (Supplier Consortium Representative), customers (Customer Sales/Service Representative), local government and the community (City Manager), environmental activists (Environmental Activist Collective), and shareholders (Board Member). The exercise involves discussion among these key stakeholders whose interests are relevant to the strategic issues at hand.

This exercise is a simulation using a negotiation theme involving the Gamma Manager and the six stakeholder groups just listed. This is not intended to teach negotiation strategy/tactics or to be an accurate representation of firm-level negotiations, but rather to expose students to the diversity of stakeholders and viewpoints, as well as the high degree of complexity that often characterizes strategic decision making.

they might read “Capitalism for the Long Term” by Dominic Barton (2011), McKinsey’s Global Managing Director from 2009 to 2018.

In addition to the assigned readings, the students should be provided with the Situation Overview (Appendix A) and required to read the material prior to the assigned date for conducting the exercise. Without this common prior reading, it will be difficult to complete the exercise effectively within a single 75-minute session.

Running the Exercise: Time Allocation

1. Instructor provides a brief explanation of how the exercise will proceed. 5 minutes
2. Students are randomly placed in stakeholder groups. 5 minutes
3. Stakeholder group members read the role material (Appendix B), discuss their positions in homogeneous groups and fill out the Stakeholder Perspective Sheet (Table 1) for their own stakeholder category only. 20 minutes
4. Students are placed into five heterogeneous teams with one representative from each stakeholder group and engage in negotiation discussions (students fill out the Stakeholder Perspective Sheet during the negotiation). 25 minutes
5. Each heterogeneous group writes up a brief description of their group’s resolution and report out to the class. 10 minutes
6. Debrief the exercise. 10 minutes
7. Debrief in class session following the exercise. 20–30 minutes (Debrief should include discussion of reflection questions assigned post-exercise.)

Note: Timing can be adjusted for different length sessions.

Detailed exercise instructions

Preparation prior to class

As noted in the preceding, the instructor may introduce stakeholder theory in a course lecture prior to the classroom exercise. If using a strategy textbook, chapters or sections relating to stakeholders and stakeholder theory should be assigned. Articles or readings such as Pfeffer’s (2009) “Shareholders First? Not So Fast” or Springman’s (2011) “Implementing a Stakeholder Strategy” may also be useful in providing a relatively short introduction to the importance of stakeholder

management for long-term success. Assigned stakeholder readings can be used for preparation before class or to solidify learnings after the exercise.

In addition, the Situation Overview (Appendix A) should be distributed at the end of the class period prior to the exercise. Students are required to read the situation overview before the simulation exercise session. This enables all the students to enter the exercise with some common base of knowledge regarding the broader situation. In addition, this advance reading allows instructors to avoid the problem of “reading” overload prior to the start of the exercise and gain more time to conduct the experiential activity.

Hard copies of the stakeholder group information (Appendix B) are prepared prior to the class for distribution during the exercise. The use of hard copies rather than electronic copies is recommended because it affords students the ability to make notes directly on the copies, is more efficient, and minimizes opportunities for distraction.

Instructor introduction to the exercise

Provide a very brief overview of how the class exercise will proceed, indicating that the students will be assigned to a stakeholder group associated with the company and strategic issue; the stakeholder groups will review material provided by the instructor and discuss the stakeholder position; the stakeholder groups will be broken up into heterogeneous teams for a negotiation session (one stakeholder representative on each negotiation team); negotiations will be conducted, resulting in a brief written summary of the resolution; resolutions will be reported out to the class. Instructions at the start of the class should be limited to a broad overview, with more specific instructions given during each phase of the exercise (more efficient, less need to repeat instructions). It is helpful to ensure that students understand that they will count off two times over the course of the exercise, once for their homogeneous stakeholder group and again for their heterogeneous negotiation group.

Stakeholder group assignment

Students are randomly assigned to a stakeholder group by counting off from 1 to 7. The groups are relocated in various areas of the classroom. Each individual student is handed a copy of their stakeholder role material (see Appendix B) and a copy of the Stakeholder Perspectives

Sheet (see Table 1). (Note: if the class size is not easily divisible by 7, the extra students can be placed in any stakeholder group as observers and assigned to draft a short observer report.)

Stakeholder group discussions

Members of each homogeneous stakeholder group read the role material and discuss their stakeholder position as a group. Each student responds to the first three questions on the Stakeholder Perspective Sheet *for their stakeholder role only*. Students do not need to complete the points of agreement or disagreement for their own stakeholder role. The students are instructed to identify which stakeholder group they are representing at the top of the Stakeholder Perspective Sheet. The aim of this phase of the exercise is to ensure that students understand and identify with their assigned stakeholder position as strongly as possible.

Stakeholder negotiations

Students number off again for placement into heterogeneous negotiation teams with one representative from each stakeholder group. Ideally, all negotiation groups will include all seven roles. Students are instructed to write their negotiation team number at the top of the Stakeholder Perspective Sheet. The teams engage in negotiations in a pursuit of a resolution that satisfies each stakeholder. During the negotiations, the students are instructed to fill out the Stakeholder Perspectives Sheet based on their perceptions of the perspectives of each of the stakeholders. These sheets are collected at the end of the exercise in order to check for diligent participation in the negotiation discussion. It is very helpful for the instructor to move from group to group, observing and providing suggestions or reinforcement if any groups seem to be struggling. If multiple instructors are available to observe and interact with the negotiating groups, this approach can help to enhance student energy and engagement. One point that is often interesting to raise partway through negotiations is the possibility of exploring solutions outside of the specific elements noted in the situation overview and individual role sheets. For example, we have prompted further discussion of environmental issues by asking students to consider the role of federal agencies such as the Environmental Protection Agency (EPA).

Negotiation teams write up resolution

Each heterogeneous group writes up a very brief description of the resolution of the negotiation

detailing how the concerns of each stakeholder group have been addressed. Each group reports out to the class.

Debrief of the exercise

Given the richness and complexity of the exercise, instructors should conduct a short debrief during the last 10 minutes of the class session and then continue with a more robust debrief in the class session following the exercise. Classes that run for substantially longer may allow full debrief in the same session, but such an approach does not allow for student reflection assignments prior to the second debrief.

The 10-minute debrief immediately following the exercise works best when combined with reports from each negotiation team about their resolution of the situation. Differences between teams are an interesting point of discussion, and the instructor can select specific points to ask for clarification. The instructor can ask whether any specific stakeholder group's interests weighed heavily in reaching the final resolution. In addition, if any stakeholder groups appear to have been given short shrift or to have gotten a poor deal in the negotiation, asking for clarification about that stakeholder group and its interests may be fruitful. We generally do this in a nonconfrontational manner, asking what led to that decision, rather than pointing it out as an error or a mistake. Students may also have legitimate differences of opinion based on assumptions they made during the reading or negotiation, and these differences in assumptions also often provide a good point for debrief discussion.

Prior to the exercise, students often confuse the terms *shareholder* and *stakeholder*, indicating that they may have been primed by agency logic to think primarily, if not entirely, in terms of shareholder value. The exercise is designed to help students return to considering a broader array of perspectives and interests when making or assessing strategic decisions. This broader perspective on strategic decision making should be highlighted and discussed explicitly during the debrief of the exercise.

If the debrief is continued in a subsequent class session, the instructor can begin by asking the teams how their resolutions position the company for the long term. Reference to the Pfeffer (2009) reading and the link between stakeholder considerations and long-term performance provides a good opportunity to solidify learning outcomes.

It is strongly suggested that instructors require a reflection assignment. If student reflections are assigned, the continuation of the debrief can leverage those assignments as well. It can be particularly

effective to ask students to consider the potential impact of different stakeholder groups on the firm's ability to implement the decision and to execute its ongoing strategy. In addition, students can be asked what they consider to be the most important learning outcome of the exercise. This question reinforces the learning that comes from their personal reflections as they express those orally and also are exposed to similar insights expressed by other students. Conducting an in-class debrief after submission of individual reflections also provides an opportunity for student exposure to differing student perceptions of learning that can add depth to the understanding of stakeholder analysis.

Student feedback and student learning outcomes

When we run this simulation in our courses, we require students to submit reflections on changes in their perceptions and key learnings resulting from the stakeholder exercise. Students in these courses are overwhelmingly traditional fourth-year undergraduates in their early twenties. They represent all business majors, are primarily Caucasian, and are approximately two-thirds male. Tests of the exercise were administered by one of the authors, and the themes were identified by two researchers independently. Since students reacted to the exercise from the same course background with the same required readings and previous discussions, the reflections had a substantial degree of similarity and there was strong agreement regarding themes across the researchers. Presented next are some of the learning themes that emerged from the student papers with a sample of supporting student comments.

Importance of Stakeholders and Stakeholder Considerations in Decision Making

The stakeholder simulation that we completed in class was a great insight into the different factors that companies must consider when making strategic decisions. There are many different constituents that are affected by a company's activities and decisions, therefore the company must find a way to balance all of these components.

In my opinion, I just thought it was very surprising and interesting to see the impact this had on so many different people. In the future, my perspective has changed and I will now be able to understand how decisions in the business world don't just affect the obvious people.

My opinions changed after the simulated negotiations that took place in class. It is one thing to read about the topic, but in actively taking on roles within the

negotiation I was able to see more clearly how one must take into account each perspectives' demands.

What I learned was that each of the figures involved in decision making had unique claims and backgrounds that needed to be considered before making the strategic decision.

After splitting up into groups in class and negotiating amongst my peers, my focus opened up and I began to realize just how many different groups of people were really involved and affected by the Gamma situation.

Overall I felt that this was a good negotiation as it took in all the different factors of the stakeholders that come about when making business decisions.

Stakeholder Analysis Highlights the Complexity of Strategic Decision Making:

After the simulation, my opinion on this whole ordeal was significantly altered because I realized that it was not quite as simple as going overseas or staying locally. Once I got the hands-on component of the simulation done I saw that, especially since I was acting as a company executive and rising manager, there was a whole lot at stake. As the manager I saw just how complex the issue at hand was for besides simply weighing going overseas, other stakeholders had to be considered.

It was very interesting to play a role in this negotiation and see how different sides may create conflict/complexities in a real business decision.

After reading this article on my own and for the first time I thought that the article was pretty straightforward and easy to understand. However, after engaging in the negotiation exercise my opinions definitely did change about the Gamma situation. I found it was difficult to make a decision because there were so many different stakeholders.

It was important to integrate the bigger picture when coming to a negotiation, not just that of the group one was representing.

All seven stakeholders had a valid point and finding a mutual agreement among them is not clearcut.

Before the negotiations I believed that Gamma should outsource their business because it would cut down costs and did not take the community, local suppliers, or the environment into large enough account. As our group explained the repercussions of Gamma's proposed move on each party involved, I realized that Gamma was far too important to the local economy and outsourcing would have detrimental affect on the community. It is important to note that local suppliers, workers, town officials, and the environment all make up the community, Gamma's proposal to outsource would hurt each party due to their dependence on business, employment, taxes, and clean land/water. The negotiations swayed my opinion to hold the

members of the local economy to the same standard of importance as Gamma's attempt to cut costs by outsourcing.

Interdependence of Stakeholder Groups

When negotiating in our groups, the only ones with background on the situations of each different constituent group was the person representing the specific group, making it especially important to fully listen to each group's needs, and find where our needs and wants overlap in order to compromise and reach an agreement.

When I first began speaking with my group, I believed that only the suppliers needed to be happy and then everything will work out. But, when getting to know what the other group members needed, I realized that there had to be a little give in what I was saying. I also realized that everyone had a large connection because if for example, I didn't say I would lower my prices, the sales reps would want to outsource ultimately meaning that the laborers would have no job.

Dropping the ball on any component would create consequences for Gamma as well as other groups.

While acting as a supplier representative when Gamma was outsourcing their suppliers abroad, and while recognizing that a lot of locals depended on the local supplier group for jobs, it became clear just how many people become part of the equation when negotiating for decisions like this.

In the case if the environmentalist did not get what they want (cleaning up the toxic waste) then at the end of the line the board would have not had a company with a good reputation and most likely the company would not be in business.

I was also surprised to find certain stakeholders working together to negotiate in a way they would both benefit.

Changes in Perceptions of Stakeholder Groups

My opinions changed after the simulated negotiations that took place in class. It is one thing to read about the topic, but in actively taking on roles within the negotiation I was able to see more clearly how one must take into account each perspectives' demands.

What I encountered that surprised me was the idea that the managers who, if in reality, were an actual general manager that was as involved as said in the reading, would have a much harder time disassociating themselves from their employee for the survival of the business itself. While I could easily brush off the idea that of layoff or changing the supplier to a cheaper overseas supplier was for the betterment of the business, an actual manager would be looking at putting people's livelihoods at risk with this decision, especially with a town's economy so strong integrated into Gamma's business. The manager may be laying off

people who children are friends with, they could be their neighbor or someone they consider themselves friends with.

This in class role-playing was a thought provoking because I have been an employee in a company before but never had to think of the interests of the collective. In addition, in school, especially my finance major, we are taught to almost solely think about profit and shareholder wealth so to be put in a situation to think about the general employee was certainly different but beneficial. With that being said, reading the case the first time I was thinking about the bottom line from the either managers or board of directors point of view but after I realized the importance of the "little guy." The general employee is so important to a company because they are the ones directly responsible for the success of the company and the quality of the goods/services. In addition, it added an increased level of humanity to the people caring about their job security and their quality of life.

My initial reaction somewhat changed after doing the exercise, I think it was cause [sic] it put it into a different perspective than [sic] compared to reading. When we acted as the specific representatives it made you respect one of the needs differently than compare to reading it.

Something that I found interesting, though, was that while I ranked supplier importance very low on my first survey, and while I ranked it in a similar last place position post-negotiating, I was surprised with how much I sided with these suppliers after playing the role of a supplier rep.

Initially after reading the analysis I was very one sided in my stance about the way the company should be positioned when dealing with the issues that arose. ... However, after sitting in on the meetings my opinions changed.

Thus, we have anecdotal evidence from the student reflections that students believe that their perceptions of stakeholder issues changed as a result of the exercise. However, we wanted to confirm this student reflection finding with some data analysis.

Students were asked to complete a survey before and again after the simulation exercise. The survey included seven Likert-scale questions, one for each role, in addition to a seven-part constant-sum question in order to assess student perceptions of the importance of the stakeholders in the simulation. Limitations in the survey tool used made a complete within-subjects analysis impossible, but preliminary data analysis showed some intriguing changes in student assessment of stakeholder importance. For example, although shareholders and management were ranked as the most important stakeholder groups both before and after the exercise, the number of students rating Employees as either very

important or important increased by 10% (from 63% of respondents to 73%). Ratings for the importance of the Community were even more changed, from 79% of the respondents rating it as very important, important, or somewhat important to 98% rating it so. Although there was little change in the Likert rating of importance for Suppliers, when asked to allocate points in a fixed-sum question (total of 100 points to allocate), the assessment of supplier importance increased markedly, from an average of 9.47 points to an average of 11.62. The only other category to show a substantial increase in average assessment was Community, moving from 10.33 to 11.59. However, we did note a substantial decline in the assessment of the Environment, from 14.26 to 10.9, which was much larger than the decline for Shareholders and Managers. It appears that many students, in attempting to increase the importance of other stakeholder groups, found it easiest to reduce their assessment of the relative importance of the environment. This result may also have been influenced by the details of the case itself. In the business case presented to the students, financial considerations and the threat of offshoring may have dominated students' attention.

Conclusion

In business management, stakeholders matter. Stakeholder analysis is not only important for its societal benefits but also for long-term business performance (Freeman & McVea, 2001; Pfeffer, 2009). As was noted in one student reflection, the exercise revealed "how important the balance between short term goals and long-term goals are not only for company executives" but for all stakeholders. The student posited, "If you tip the balance too far in one direction, it could be a major, costly mistake for any of the stakeholders involved." Integrating stakeholder analysis into business decision-making processes can provide insights that foster a long-term perspective.

Stakeholder management was considered one of the primary management tasks during the 1950s and 1960s, but the shareholder capitalism mindset that is myopically focused on shareholder wealth maximization subsequently became the dominant strategy driver (Pfeffer, 2009). This orientation is also common in business school curriculum. The exercise outlined in this article offers an opportunity to increase student awareness of the importance of stakeholder considerations in business decision making.

Although the stakeholder approach adds complexity and often exposes conflicting interests and claims, it can contribute to deeper levels of critical thinking and the development of business decisions that best

position a company for the long term. Stakeholder theory provides an important lens in business strategy. This experiential exercise affords an opportunity to enhance student understanding and promote broader considerations of stakeholders that support effective strategic decision making.

Notes

1. Scanning and analysis of external environmental forces: sociocultural, technological, economic, ecological, political/legal.
2. Michael Porter's (1980) analysis of five industry forces: threat of new entrants, intensity of rivalry among existing competitors, threat of substitute products or services, bargaining power of buyers, bargaining power of suppliers.
3. Such as Jay Barney's (1995) VRIO/VRIS framework.
4. Analysis of strengths, weaknesses, opportunities, and threats.
5. <https://www.forbes.com/sites/deborahweinswig/2016/10/18/made-in-america-movement-making-waves/#152d42636f62>.
6. <http://www.consumerreports.org/cro/magazine/2015/05/made-in-america/index.htm>.
7. <https://www.forbes.com/sites/richardfingert/2013/04/29/why-american-airlines-employees-loathe-management/#79c611533d9f>.

Disclosure statement

No potential conflict of interest was reported by the authors.

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Appendix A

Business Stakeholder Analysis Simulation Situation Overview

Alphom is a multidivisional manufacturing company headquartered and operating primarily in the United States. The company is seen by many as a symbol of the innovation and business savvy of American business for decades. Gamma division, the firm’s highest revenue generating business, was founded in your local city, Bedford Falls, and continues to have its divisional headquarters and most of its manufacturing operations in the city. Local relations have historically been strong on all fronts.

Alphom Corporation has been operating in the Bedford Falls community since shortly after Gamma division’s founding more than 50 years ago. Gamma division, Alphom’s highest revenue generating business, remains the most significant local employer. Alphom has won awards as a good place to work and as a civically minded business. Gamma division, specifically, has had a good relationship with the local community and local government in Bedford Falls and was listed for several years as one of the best companies to work for in the area. It has generally had a good relationship with local suppliers, with some innovative product ideas coming out of the local supplier community. Recent difficulties related to increasing competition from overseas competitors, aging facilities, and a local tax and fee burden that is higher than in many other areas have caused some tensions to develop, but relations with the community and labor are still fairly strong. Supplier relationships became strained as the company, under the leadership of the former Gamma manager, began shifting sourcing for several components of its core products to overseas suppliers. The former Gamma manager had moved to the area upon taking the position as Gamma manager, but has moved

away again after recently being appointed chief operating officer (COO) for the parent company, Alphom.

Although product sales have remained strong, Gamma division's profitability has begun to slip in recent years due in large part to competition from international competitors. Most industry analysts agree that these competitors face substantially weaker government oversight and regulation regarding working conditions, plant safety, environmental issues, etc. Local labor rates are substantially higher than elsewhere in the country and dramatically higher than those in many developing countries. Productivity and quality in domestic plants, however, have historically been higher than in foreign locations. While quality remains higher in the local plant, market share has been slipping as some customers opt for cheaper alternatives.

Environmental concerns have arisen, as well, but there are differences of opinion regarding responsibility and culpability. Some have argued that the labor and environmental activists who have begun protesting and agitating against the company are anticorporate and supported by groups from the national level, rather than representing local sentiment. Others contend that business too often ignores its responsibilities for the environment as companies pursue profit above all else. The most prominent local issue arises from a site that Gamma acquired after a local company, a former supplier to Gamma, collapsed into bankruptcy. Gamma stepped in and acquired the firm, reducing the potentially dire immediate economic impact by retaining many of the employees who had worked at the failed company. Unfortunately, the site had not been particularly well managed for decades before Gamma agreed to take it on.

The newly appointed Alphom COO has been aggressively exploring opportunities to move production of many Alphom products overseas, including the core products long produced by the Gamma division. The COO argues that obvious competitive issues preclude releasing information about this offshoring push until the company has made a firm decision on direction. Some industry analysts argue that tax incentives, higher quality and productivity, and marketing considerations favor continuing a high degree of domestic production. Indeed, the "Made in America" movement favored domestic production, and the U.S. Department of Commerce reported that manufacturing in the United States grew 45% from 2009 to 2014, resulting in nearly 650,000 new manufacturing jobs.^{5,6} Others argue that reasonable concessions from local government, labor, and suppliers are unlikely to achieve the same savings as wholesale offshoring of production.

Given pressures from top management and the rise of global competition in the market for Gamma division's products, the current Gamma Division Manager recently launched a major negotiating effort with local labor, suppliers, and government in order to address overall cost related issues at the local plant in order to establish a more favorable competitive position and allow more pricing flexibility in the market. Gamma's importance to the local community was highlighted in recent election campaigns where all parties courted favorable public opinion by aligning themselves with Gamma and professing their strong commitment to keeping up the long-standing good relationship between government and Alphom's Gamma division. Although negotiations with labor have been challenging at times, Alphom has seen little true

conflict with labor over the years, and labor leaders have expressed a willingness to work with the company as it deals with competitive threats.

Appendix B

Role Descriptions and Information for Individual Stakeholder Groups

- 1 – Gamma Division Manager (Company Executive)
- 2 – Labor Representative
- 3 – Supplier Consortium Representative
- 4 – Customer Sales/Service Representative
- 5 – City Manager (Local Government/Community Representative)
- 6 – Environmental Activist Collective Representative
- 7 – Board Member (Shareholder Representative)

1 – Gamma Division Manager (Company Executive)

You have been an employee of Alphom for over 10 years, having recently risen to the position of senior vice-president (SVP) in charge of the Gamma division's local operations. Your position at Alphom, including the probability of a promotion to a senior executive position at corporate headquarters, is tied to the financial success of the Gamma division. While product sales are still strong, Gamma's profitability has slipped recently due in large part to international competition coupled with relatively higher domestic labor costs.

Your predecessor, who was recently appointed chief operating officer (COO) of Alphom, began an outsourcing initiative for many components in order to begin addressing the cost disparity with foreign competition. This initiative began by replacing the suppliers for many of the lower value components with international suppliers at a cost savings of more than 15% for some items. Although a few local suppliers were impacted, many of those supplies were purchased from outside the local area already. A more recent initiative, begun a year before your appointment, replaced a few key components formerly purchased from local suppliers with parts from overseas competitors. Initial quality and delivery problems caused some significant issues during the first year, actually costing the company substantially more than under the previous supply chain arrangements. However, projections by the division auditing group show future year savings in the 10–15% range as a conservative estimate.

Since taking the position of COO, your predecessor has been aggressively exploring opportunities to move production of many Alphom products overseas, including the core products long produced by the Gamma division. The COO's office argues that obvious competitive issues preclude releasing information about this offshoring push until the company has made a firm decision on direction, but internal scuttlebutt favors the opinion that reasonable concessions from local government, labor, and suppliers are unlikely to achieve the same savings that the COO's office staff project from offshoring most of the division's operations.

You have become an active member of the community, serving in the local Rotary Club and coaching your daughter's soccer team. Your children attend the local public schools and many of their friends are the sons and daughters

of your employees. The company has been a strong corporate citizen, providing funding for the town's senior citizen center, sponsoring youth athletic teams, and offering scholarships for college-bound students. You have also begun partnering with the Superintendent of Schools to develop education programs designed to develop skills for non-college-bound students seeking jobs in manufacturing. You have a personal interest in the local environment, and you are confident that Gamma is being a good steward in that respect.

You know that labor negotiations are often tense when salary reductions or changes in work rules are on the table, particularly since members of the management team earn substantially higher salaries than do those who work as hourly labor. However, you also know that recent declining profitability has severely reduced bonus income, with many managers receiving no bonus income in the last two years.

2 – Labor Union Representative

Many Gamma division employees are “lifers,” meaning that their entire working careers have been spent working for Gamma. A large number of local residents are retirees from Gamma, and many current employees are hoping to enjoy similar retirement comfort. There is pride among the employees working at Gamma. Relations with the firm have been fairly strong over the years, but recent changes in the industry have created some tension. Gamma division management has openly discussed the market changes that have brought international competitors into the fray with predictable impact on company sales and profitability. At least there had been no chatter about possible bankruptcy of the sort that had cost many retirees at other companies so dearly and lead to dramatic changes in worker wages and benefits.

As the elected representative of the workers at Gamma division, you have some authority to negotiate with the company on behalf of your co-workers, but any changes in wages or benefits would require a vote by the workers themselves in order for the change to be ratified. The relatively cordial history between the company and labor means that employees will likely accept some short-term reductions in wages, and perhaps even some restructuring of benefits deals, in exchange for the confidence that the jobs currently at Gamma would remain in the local plant rather than being outsourced or offshored. However, the employees took pay cuts and agreed to reduced benefits during the economic recession and many workers are keenly aware of the salary differentials between themselves and senior management at Alphom Corporation. You recently read about a situation in which labor took substantial pay cuts at American Airlines while management received extremely generous bonuses.⁷ Such management-labor disparities mean that your fellow employees are unlikely to tolerate dramatic cuts that seem to be one-sided and impact only line employees rather than including management and the broader company.

Although your primary concern is with labor conditions at Gamma, supplier contracts in the local community are also important to you and your colleagues since the employees of those companies are your friends and neighbors. Their welfare impacts the whole city. However, the workers at Gamma have been less clear about their position regarding the impact of the environmentalist groups that have recently become more active. If there are truly dangerous chemicals in the

local water supply, that is not a good situation, especially for the employees and families who live in the area. On the other hand, Gamma has been operating in the area for decades without any major problems coming to light. Some of your peers have argued that these groups are using recent news stories to try to get more donations rather than to do real environmental work that is good for the community. In the process they may be causing unnecessary problems for the company and endangering local jobs.

3 – Supplier Consortium Representative

You have served as a supplier for Gamma company for over 20 years, and as a result of your familiarity with local business and the trust you have generated over many years, you have been asked to serve as the representative of the local supplier consortium in the discussions that the Gamma division manager has requested. Your company has provided Gamma with excellent quality at fair price. Along with other local suppliers, you have satisfied rush orders and have gotten product to Gamma on short notice when necessary. The work you do for the company constitutes almost 20% of your business, so loss of or significant reduction in this business would have a substantial negative impact on your company.

As a supplier yourself, you are well aware of the history of Alphom and its Gamma division in the local economy. Many local and regional businesses have built their success in large part on their ability to service the large contracts for goods and services demanded by Gamma division. Some businesses in the area have grown over the decades along with Gamma division, and are well structured to meet Gamma's need for quality and timely delivery. Gamma and the broader Alphom Corporation have benefitted from innovations and input on designs and products made by local suppliers, while providing a ready market for those suppliers to sell into.

As international competition has arisen more recently, Gamma has succumbed to economic pressures and begun to outsource more components to offshore providers, causing some tension with local suppliers. Most of the early changes in supplier relationships were felt by companies outside of the local community that were providing more commodity-like components, but some local businesses had lost contracts as well, and a few closed their doors permanently as a result. More recently, it has become clear that Gamma management is likely considering further outsourcing. The former manager of Gamma division has been promoted to chief operating officer of the parent company, Alphom, and may have continuing interest in outsourcing, along with more organizational clout to promote that agenda. However, the long-standing good relations with local suppliers would seem to argue in favor of Gamma division as a trustworthy buyer.

You know that Gamma will be looking for cost reduction targets in upcoming negotiations. Although specific contracts will have to be negotiated with each supplier and for each component, your role as representative will help you set the tone for those future negotiations. While you have some broad influence across the local supplier community, it is unlikely that many companies will be able to offer more than relatively low single-digit percentage reductions without endangering their own profitability and near-term survival, and those selling proprietary products with higher margins have less incentive to concede much in negotiations. If you can arrive at an amicable agreement with Gamma regarding

the scale of price reductions while maintaining reasonable terms and conditions for future contracts, that agreement will inform all future contract negotiations.

Looking ahead, you are wondering if your own company will survive either the requested price reductions or the loss of business that Gamma outsourcing would mean. Price reductions will probably drive wage cuts for your employees, but losing the business could be even worse.

4 – Customer Sales/Service Representative

You are a commission-based external sales and service agent representing multiple companies, but Gamma has been a long-term and lucrative source of business for more than a decade. More than one-quarter of your income most years is generated by sales of Gamma's products. Not only has the quality of the products promoted loyalty among customers, but Gamma has a reputation for working directly with its customers to meet industry specifications. In addition, the company's on-time delivery has been exceptional. There are definite advantages to having a supplier in the United States, particularly one in close proximity to their plants, and you have been very successful in promoting Gamma to buyers using those benefits. However, a number of competitors have entered the market, challenging Gamma's business. Their prices are lower, making it enticing for buyers to switch their business to those new suppliers, and you have begun to lose accounts and suffer volume reductions that significantly impact your ability to profit from working as a representative for Gamma.

The primary issue is price point. Overseas competitors have begun to offer close analogues of the products that Gamma makes at much lower prices. Although these knock-off products are less reliable and of lower quality than Gamma's products, the price difference has been difficult to overcome. Some of your target customers have used overseas suppliers for some components, but the quality is not up to the level provided by Gamma. A few former customers have quietly let you know that the lack of direct and collaborative working relationships has slowed the launch of new products. In addition, there have been some production delays that have proven costly. In fact, Gamma has on occasion bailed out customers that you represent with emergency shipments when there were problems overseas.

However, the cost savings that lower supplier prices can bring are often very compelling, and many newer employees at potential, former, or even current customers are unaware of the potential issues that offshore supply often gives rise to. While it is clear to you, and also to some of the buyers with whom you deal, that Gamma is the high-quality, high-reliability provider in the industry, these customers are facing cost reduction pressures of their own. Without meaningful price reductions, some of the current customers may feel compelled to switch suppliers, even if they recognize the benefits of working with Gamma division. During the upcoming discussions, you hope to make clear the importance of competitive pricing within this industry, but you also want to make sure to acknowledge the quality and service advantages that Gamma has with many current customers.

5 – City Manager (Local Government/Community Representative)

As a long-term resident of the community, you grew up with Alphom as a major local employer and pillar of community

life. Many children in the community grew up playing on the soccer or baseball teams sponsored by the company, many patients at the hospital had benefitted from corporate donations, even the senior center was built in part with funding from the company. The company and its employees are the largest contributors to local charities and nonprofit organizations through their contributions to the United Way. Your position in the local government made you more aware than most of the impact the company has on local life. Alphom, through the Gamma division, provided a significant portion of local tax revenue through corporate taxes and fees, as well as through local payroll taxes. Without that revenue and, perhaps more importantly, without the steady and high-paying jobs the company provided, the community would flounder.

You are aware that the town and state have been supportive of the company, offering tax breaks when the Gamma division expanded its facility several years ago. The town also built up the water, sewer, and utility infrastructure necessary to support the expansion. It sold the company a town road that ran through its company complex, which helped the company improve efficiencies between its manufacturing and packaging/shipping buildings. So, there has been a fair share of goodwill on both sides.

The recent economic troubles facing the company are common knowledge, and there was increasing concern that the long-standing reliance of the community on one primary employer was risky. Given the central role Alphom played in the community, the city council and mayor have given you authority to negotiate with the company regarding tax and fee structures, perhaps giving some relief for the next few years, if necessary, while the company makes adjustments to deal with increasing competition and the concomitant impact on revenues and profitability. The city cannot afford to waive all tax and fee revenues, and any reduction will strike a painful blow on the city's balance sheet, but substantial tax incentives that ensure the steady operation of the city's major employer are on the table.

The local supplier community is an important part of the city's business environment, and to the extent possible you want to help them succeed, since they complement Gamma's impact on the local economy by providing further employment and paying their own taxes and fees to the city. Labor is an important constituency as well, and provided the jobs are in town, employees will pay their taxes into the city coffers and contribute to the economic and social health of the city. So long as your position vis-à-vis Gamma doesn't antagonize workers such that they complain to their elected representatives (who make hiring and firing decisions about city employees), you will likely have their support or at least passive acceptance. Although historically not a significant source of concern, recent reports by some environmental groups have raised some serious issues regarding existing pollution at a Gamma site. You recall the Gamma takeover of the site several years earlier (before you took over the city manager position) as a positive event for the city's economy, but you also recognize that pollution cleanup can be expensive. These environmental issues could impact the longer term health of the community, including its financial health if the city incurs any significant costs for cleaning up any residual pollution.

6 – Environmental Activist Collective

As a native of the local area with a substantial history of activity with environmental concerns, you have been selected by a group of environmental organizations to discuss these issues with the management of Gamma division and the local government. Unfortunately for your interests, much of the pollution that the national organization believes is being produced by the company does not have an immediate impact on the local community. Waterborne toxins are carried downstream, where they may cause problems for water treatment plants for those cities whose water intake comes from local rivers. The impact on local flora and fauna may be more significant, although harder to prove because of other industrial polluters in the area and a long history of industrial pollution in general.

Although Alphom has won awards as a good place to work and for civic engagement, the environmental impact of some of its plants has been less benign. The local operation has had few problems, though, and Gamma division has long been considered a conscientious manufacturing firm with a solid reputation for running efficient and responsible facilities. However, some serious questions have arisen recently, including the contention that Gamma may be responsible for some pollution that is finding its way into local waterways. More concerning still are recent findings from a university-organized groundwater test that showed the presence of a dangerous carcinogen that had not been present in prior samples. Initial testing and modeling indicates that the likely source of this pollution is one of the sites currently operated by Gamma. Gamma took over this site many years ago when another local business went bankrupt, and recent reports indicate there may be a significant environmental problem originating on that land. This test has created much greater press coverage for the environmental issues surrounding Gamma's operations, and the collection of environmental groups that you represent has been able to use this coverage to get a seat at a negotiating session about Gamma's future operations.

There is some disagreement regarding the best approach to take in order to reduce the impact of pollution. While pollution of local waterways concerns all of the environmental groups, some of the more practically minded organizations with which you have worked have been proponents of refurbishment and redevelopment of "brown-field" sites. Such previously used industrial sites have a history of pollution, and there are often considerable legacy problems that were created by polluting companies that no longer exist. Penalizing redevelopment by pursuing liability for historical pollution incentivizes industrial firms to develop sites that were often previously used as farmland. Many activists argue that this kind of "green-field" development model simply spreads the issues of pollution to formerly unpolluted lands and does nothing to help clean up already-polluted sites.

Others argue that any company that acquires polluted land also takes on responsibility for existing pollution. They argue that the price paid for such polluted land is reduced because of the pollution that is present, and thus that the acquirer should have funds available to help with cleanup.

The counterargument to that position is that cleanup in some situations amounts to many, many times the potential value of the land in question. Nonetheless, in situations where a polluting company still exists or where a fairly direct line of culpability can be drawn, holding those responsible for pollution accountable for the damage done helps to fund cleanup while also providing a disincentive for future egregious pollution releases.

7 – Board Member (Shareholders)

As a board member, you recognize that you have a fiduciary and legal responsibility to protect shareholder interests, but that you have no official role in the current negotiations. Since the board does not make such operational decisions, your role in the current discussions cannot be formal, but as a native of Bedford Falls and strong supporter of the local community you have significant personal interest in the situation. You are also very concerned about the current situation, and although you cannot divulge proprietary or restricted information acquired through your role on the board, you hope that your familiarity with publicly available information may help bring the parties closer together. You have made some notes regarding important points that you are comfortable mentioning in the discussions among the interested parties.

You know that many Alphom shareholders, including many in the Bedford Falls community, rely on the dividends from their Alphom stock for retirement income or to pay tuition and other expenses for their children. Shareholders have historically received a solid, if unspectacular, return from their shares in Alphom, and the dividend has not been cut in over a decade. However, the stock has slipped in the markets recently. As the division responsible for the lion's share of Alphom's revenues, issues at the Gamma division have an outsized impact on stock performance for the company. The competition from cheaper rival products sold by overseas competitors has taken a toll on the performance of Gamma, and although the revenue impact has been moderate so far, profitability has suffered. Worse, the decline has continued, even as Gamma has changed sourcing and launched negotiations with labor, suppliers, and even the local government in order to get a handle on costs.

Alphom has a strong reputation for its commitment to corporate social responsibility. It ranks high among its competitors on socially responsible investing indexes, and the company's reputation has been argued by marketing analysts to provide a significant boost to the value of its brands. The strong corporate reputation may be important to both current and future shareholders. This reputation was also an important personal consideration in your decision to join the board.

As a long-standing member of the Bedford Falls community you are keenly interested in the outcome. You hope that you may be able to bring the parties closer to agreement while ensuring that shareholder interests are appropriately served.