

*The customer is king... not!*

# Balancing conflicting stakeholder requirements

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*The slogans of many total quality management efforts state emphatically:*

*The customer is king! Customer satisfaction reigns supreme! Meet the customer requirements! Exceed the customer requirements! Delight the customer!*

**T**his overly simplistic view ought to cause many an executive to lose sleep and quiver with fear at the thought that if they follow their peers' lead, push the total quality management into their organizations, then everyone on the payroll might take the slogans literally and act accordingly. Very, very scary.

One question: Are you/we willing to meet the customer's requirements at any cost?

In a word, your answer ought to be: No!

The reason for the *No!* answer — nothing in business (or anywhere else) is really that simple. There are more stakeholders than just the customer. And more often than not, there is no *one* customer, just as there is often no *one* right answer as to what the requirements are. Nor is there any point in ignoring one of the key considerations in making a business decision — cost. The truth is that there are always a number of complex trade-offs in business decision making.

Too many TQM advocates have done a poor job of convincing management that they understand these trade-offs and, as a result, TQM sometimes sounds naive about business.

**Are all requirements created equal?** Often the requirements of the various stakeholders are in conflict with each other. Then we have to answer questions such as:

- How do we balance the requirements and determine where trade-offs can be made?

- How do we evaluate them to determine how to create a *win-win* solution for everyone?
- How do we decide whether *win-win* for everyone is feasible and not just a *pie in the sky* goal in a world of variability?

*Both sides have a point...* TQM advocates have a point when they try to move the focus away from "profit as a goal" toward "profit as a result of competent, fair service." And executives need a way to get the message out that the company exists at the will of its customers but that competitiveness can only come by *profitably* meeting customer needs better than their competition.

*The problem: slogans are incomplete...* If all you want is to generate some results through a lot of activity, then management might just as well run around shouting:

- *Empowerment to the people!*
- *Delight the customer!*
- *Improve all processes everywhere continuously!*

*Perhaps Deming had a point after all...* Without a sound business evaluation, the results may be nothing more than increased costs. Maybe that is why one of Deming's *14 Points* is to eliminate slogans, exhortations, and targets. But management's problem still remains, what is the right message to send to employees? Try this one for starters: the customer is not the only one whose requirements we must consider.

**"The truth is that there are always a number of complex trade-offs in business decision making."**



Other groups *hold a stake* in our decisions. Effective decisions must balance the requirements of a number of disparate stakeholders. Let's take a look at who these *stakeholders* are, what their requirements typically are, and how much *clout* they carry.

### Stakeholders and requirements

There are at least seven basic stakeholder categories, each with different types of people in each of them: **I**

- Government
- Shareholders
- Executive management
- Customers
- Employees
- Suppliers
- Community

**Government** — The government represents the most formal and powerful stakeholder. This stakeholder embodies the laws and regulations which guard the interests of the public and business. The laws provide the guidelines for conducting business. In addition, there are a wide variety of regulatory agencies at the federal, state and local levels whose purpose is to control the business practices in particular industries. Whether the entity is a publicly owned business, or a family business, the Girl Scouts of America, the National Football League, or a religious organization, various laws and regulations ensure that the public interests are protected and served.

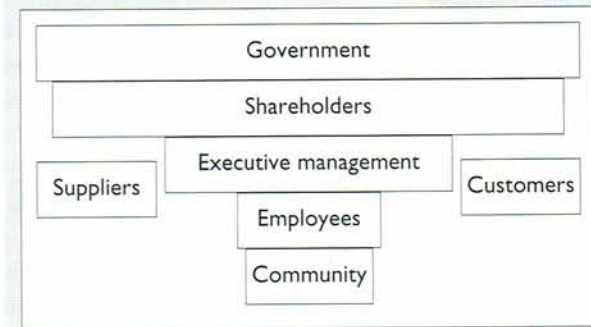
*Requirements...* As a stakeholder, their interests and requirements supersede all others. It doesn't matter that the customer may require a bribe to do business, or that they want an unfair price, or they require you to act unethically and illegally and dump toxic wastes. The government(s) requirements will take precedence, under the penalty of law for non-compliance.

**Shareholders** — Shareholders are the owners, whether they are the members of a non-profit society, a closely held or publicly traded company. Their shares represent capital invested in the firm with an expectation for an equitable return.

*Requirements...* Their goals are typically long-term growth in equity or short-term income through dividends, but can include other goals such as societal enhancement, environmental protection, etc.

### Stakeholder hierarchy...

Typically, the higher the group in the stakeholder hierarchy, the more *clout* they have and the more complex their requirements will be.



Management is responsible to shareholders for business results. If the management group does not achieve shareholder financial performance goals, they will either be replaced or investors will withdraw their capital and invest it elsewhere.

**Executive management** — Executive management stakeholders are those responsible for the operations and results of the entity. They may be *partners* who contributed and own all the capital of the entity and run the business, or they could be an elected board of directors responsible to all the owners and the overseeing of daily business operations.

*Requirements...* As a matter of law, the managers of a publicly held corporation have a fiduciary responsibility to the shareholders for all operating decisions made. Their decisions could be determined to be unlawful/fraudulent, and they may be liable for their actions within the context of the law. They must always balance the (conflicting) interests of various stakeholder groups when determining the course of action for the organization.

**Customers** — Customers are typically a diverse group. There are numerous methods used to analyze them as distinct groups to gain insights into their situations, problems, and needs.

*Requirements...* In some cases, such as with large-scale contracting businesses (aircraft or information systems), many customer requirements are specifically defined. Even in this type situation, there are many different customer requirements, such as those from technical experts, business management, contracts management, etc. Each of these may have unique, and sometimes conflicting requirements.

In other types of businesses, the provider has to generalize the requirements of the entire

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marketplace to create the right product. And in either of these situations, customers may not really know exactly what they want or what is available to help them with their problems/opportunities. One thing is certain however: customers will generally demand a quality product at a competitive price.

We need to listen to customers to understand their requirements fully and consider those in light of what our competition is doing. This allows us to responsibly determine which customer requirements we will choose to pursue. And in choosing those, we have to carefully consider pursuing only those that meet the requirements of other critical stakeholders.

**Employees** — This stakeholder group includes all ranks of employees below the executive management level: upper–middle management, middle management, supervisors, individual contributors and employees with union representation.

*Requirements...* At the heart of all employee requirements is a safe workplace and financial security but other needs exist as well:

- Some employees want the opportunity for career growth and advancement...
- Others want a work situation where they can use their intellect and creativity...
- Still others may simply want an un–demanding set of tasks to do before they head home each day.

Each set of needs is as different as the individual doing the job. Global assumptions, such as: everyone wants to be a team player, may only lead to a population of dissatisfied employees.

Organizations need to listen carefully to all their employees.

**Suppliers** — Suppliers (both internal and external) are also a key stakeholder group. To promote a long–term arrangement with particular suppliers, one needs to be aware of how your business decisions impact their businesses.

*Requirements...* Supplier requirements typically include the following:

- Clear/stable specifications for their products and services...
- Stable demand, or accurately forecast demand...
- Prices that enable a growth in *their* shareholders' equity.

*Win–win* collaboration with targeted suppliers helps to ensure a stable inflow of goods and services which will efficiently meet the needs of our own process and business requirements. It's not just a nice theory, it's a good business practice.

*A supplier sub–category...* Another potential stakeholder constituency is made up of various organizations that establish standards for technical and business practices. Though their requirements are similar to governmental regulations, they do not have the *power of law* to enforce their points of view; they may have the *power of the marketplace* via consumer confidence in their standards. A standards stakeholder may also generate requirements of your business such as packaging/labeling, purity, recyclability, percentage of parts manufactured domestically, et cetera. In addition, they may address the processes within your company, such as the implementation of your quality management system, hiring and recruitment processes, and so on.

**Community** — Community stakeholders, although a less formal group, remain important through the influence they can have on our businesses. Church groups, neighborhood action committees, service clubs and such can exact a consequence if ignored. The various stakeholders in the community can choose to support your business or, if they do not agree with the ways in which your operations are run, bring it to the attention of the greater public.

*Requirements...* Their interests primarily lie in community and environmental safety, jobs and cooperation with or donation to community interests/causes. Community members can be a nuisance or a powerful base of support, depending upon the effort put into establishing and nurturing the relationship.

## Balancing stakeholder requirements

It would seem, given the extent of the list of stakeholders and requirements, there are really three problems:

1. Identifying specifically who our stakeholders are in any given situation...
2. Understanding their requirements and priorities to be placed on those requirements...
3. Balancing requirements that are in conflict. Balancing requirements means making tough trade–offs on which needs will be exceeded, met, or not met (at least in today's view).

**Stakeholder requirements matrix...**

1. Government	Government																		
1.1	1.1	1.2	1.3																
1.2																			
1.3																			
2. Shareholders																			
2.1 Regular dividends																			
2.2 Long-term growth																			
3. Executives																			
3.1 Low cost/high volume strategy																			
3.2																			
4. Customers																			
4.1 Custom orders																			
4.2 Interchangeability																			
5. Employees																			
5.1 Avoid last minute scrambling																			
5.2 Overtime																			
6. Suppliers																			
6.1 Stable market for components																			
6.2 Low inventory requirements																			

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Identify the stakeholders and their requirements. Use the generic stakeholders' list and their requirements to help you think through the specific requirement areas of your specific stakeholders. This is just a starter list and is not intended to be all inclusive. Discuss these requirements with the members of your organization who face these issues in their own jobs. Compile and list all requirements in the vertical column of the matrix. Expand the list of requirements as needed.

Applying the matrix to hierarchy of stakeholders problems... The matrix will allow you to identify if, in a given situation, there are conflicts between the requirements of the various stakeholders. You can use the center section to evaluate each requirement against every other requirement and identify the severity of that conflict at the intersection of the two requirements. In the example, note that the customers' need for customized orders (4.1) conflicts strongly with the supplier's requirement for stable component orders (6.1) the three at the intersection of these requirements indicates a high level of conflict.

We make similar trade-offs in our personal lives every day:

- How do you decide which set of in-laws wins the first holiday visit to see the new grandchildren?
- Whose career will take precedence when the next opportunity knocks?
- Do you buy a quart of oil every week for \$2.00 to drive the old beast to the job, or rebuild the engine for \$3,000?

Step one in balancing stakeholder requirements is simply knowing what the requirements are and who is making them. The many and different types of requirements can be made more manageable by using a decision matrix.

A stakeholder requirements matrix can help organize the requirements definition and balancing process, especially when you are trying to develop a consensus view across a team. It gives you a starting point for a list of stakeholders and for their individual requirements. The specific needs involved in your own decision or process may well require you to expand or reduce this list.

**Stakeholder requirements matrix —** Basically, the matrix shows key requirements of each of the primary categories of stakeholder. The requirements are general but can be made more specific as needed. 2





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For example, instead of a general heading of *suppliers* you may be able to list the individual companies and note that *supplier A* wants to provide a broader range of services while *supplier B* is more concerned with a stable volume of orders. To be sure you have the full range of requirements covered, use the general items as a checklist.

One way to use the matrix for your own situation could be to identify individuals who represent each stakeholder group and ask directly for their perspective. In situations where you don't want to discuss things with the actual stakeholder groups, internal experts in areas relevant to the stakeholder groups could role play their interests. For simple decisions, you may find that this general requirements list is sufficient.

**Resolving stakeholder conflicts** — Identifying where requirements conflict is really the most important step but the hard part is figuring out how to resolve it. To resolve the conflict, you need to decide if there is an alternative that will somehow meet both requirements or, what will more likely be the case, is a decision on which set of requirements takes precedence.

*Using the hierarchy and 'clout' as a measure...* Typically, the higher the group in the stakeholder hierarchy, the more *clout* they have and the more complex their requirements will be. In some situations, the specific requirement of a lower-placed stakeholder may seem to take precedence over a higher-level stakeholder, but usually, the hierarchy is kept intact. However, saying the hierarchy is usually not violated is not the same as saying there aren't honest differences of opinion on how requirements should be met. For example, some of the shareholders requirements might not be fully met for some reasonable amount of time to enable the enterprise to invest in R&D for a new product or settle for a slimmer short term ROI to attract new customers.

*Using the matrix...* So, how do you balance the requirements of such a diverse set of stakeholders? The stakeholder requirements matrix will help to organize your information and prepare you to speak with the various constituencies involved in the decision about all the requirements, conflicts, and trade-offs, but it will not give you an answer.

The matrix will steer you toward the real key: truly understanding the *whys* behind the stakeholders' requirements.

Then, when and if a compromise is necessary, you will be better able to choose the least offensive alternative and defend it rationally. Understanding the *whys* will also lead you to the real requirements and away from *nice to haves*. In the example, the employees would know why management might overrule a recommendation to make the product more *customizable*.

*Those furthest from one stakeholder and closest to another may upset your balancing act...* Overlooked stakeholders are usually those farthest removed from those making the decision. If employees only consider *end-use customer* needs when working on continuous improvement efforts, product development teams, or even during front-line customer contacts, they run the risk of missing and/or conflicting with requirements of other important stakeholders.

Decisions made by employees, unaware of more distant shareholder requirements, may result in a waste of shareholder equity in chasing requirements that customers aren't willing to pay for, that don't fit the standards of the industry, or are outside the company's strategic direction.

If management reverses decisions made by newly empowered employees, waste may be avoided but employees may begin to distrust management. Management may well then be seen as not walking the talk and as *duck walking* — ducking the issues. TQM may then be viewed as just another management whim or fad from the consulting quacks. What they don't see is that the real driving force behind all business decisions is the overall good of the business — the slogans didn't communicate the full message.

What we all need to understand is that meeting customer needs is yet another instance where there is a series of trade-offs and compromises. Business decisions are inherently complex due to the conflicting demands of a variety of stakeholders. The message that needs to be communicated is that everyone in the enterprise has to apply sound logic in making business decisions and remember that often not all stakeholder requirements will be met to their entire satisfaction.

## Some closing thoughts

All of us must try to understand the requirements of all stakeholders involved with the business. The closest customer cannot reign above all other stakeholders. Stakeholder requirements must be understood and balanced within the context of their legitimate hierarchical relationship and the firm's basic need for profitability.

The basic message to all employees should include the following:

- Your immediate customer's demands should not be met at all costs...
- There may be situations in which it is better to lose a client than to jeopardize the business...

All employees need to understand the range of stakeholder segments, typical requirements, and the hierarchy so they may understand:

- Which requirements take precedence when conflict arises...

- What customer requirements should not be met now, and/or later, and why?

Armed with such information, employees can, when appropriate, inform the customer why a particular need cannot be met.

But questions such as those above can only be answered when all the requirements are uncovered and judged in relation one to another so as to reveal the full implications of any decision. The long and the short of it is this: there are no simple answers; business decisions are inherently complex and take time, effort, and frequently involve trade-offs.

Good luck. And may the balance of requirements be in your favor. ♦