MITSloan Management Review
The Strategy of Change series #4

# Great Strategy Considers More Than Customers and Investors

Employees, business partners, and local communities are often overlooked but are essential stakeholders in business strategy.

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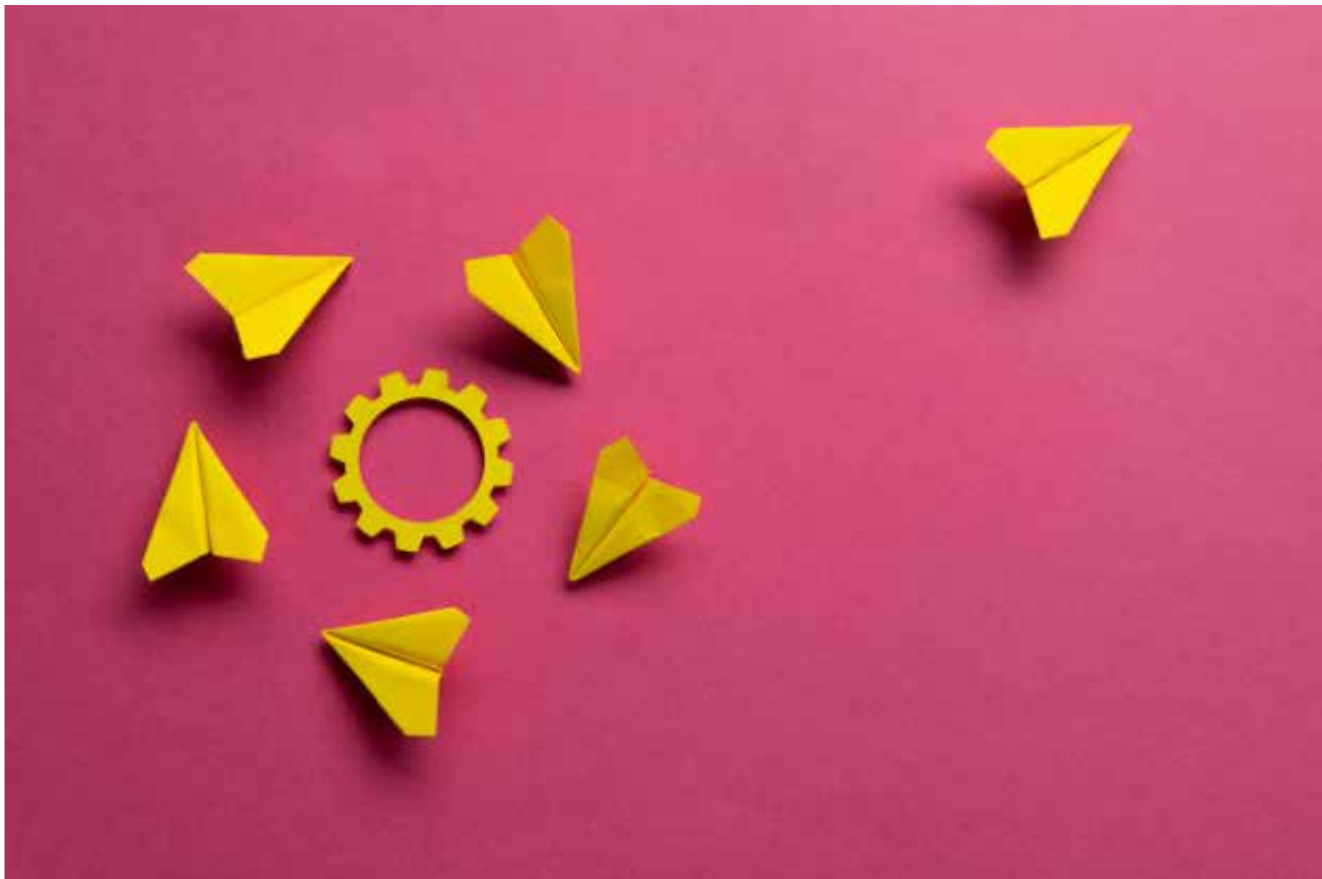


Every business today is under pressure to meet the needs of stakeholders beyond its customers and investors. Some organizations may view this as a burden, but others have successfully enhanced their value by meaningfully integrating employees, business partners, and communities into their strategies.

Reviewing these broader-based strategies using the framework outlined in our article "Changing How We Think About Change," we found that strategies that consider the needs of nontraditional stakeholders often result in creative solutions that also benefit customers and investors. Some strategies effectively expand the addressable market, a key indicator of fit to purpose, which we define as the relevance and sustainability of the company's value proposition. Other strategies primarily affect the company's competitive position — its relative advantage, defined as its perceived distinctiveness and vulnerability to substitution — by either enhancing its ability to command a premium price or reducing its cost base.

**Changing How We Think About Strategy**

Traditionally, strategy has been approached as an exercise in where to play (identifying industries with favorable economic structures) and how to win (identifying how to capture value by focusing on product leadership, operational excellence, or customer intimacy). The only stakeholders that have mattered are shareholding investors, as the providers of scarce financial capital, and customers, as the source of revenue.

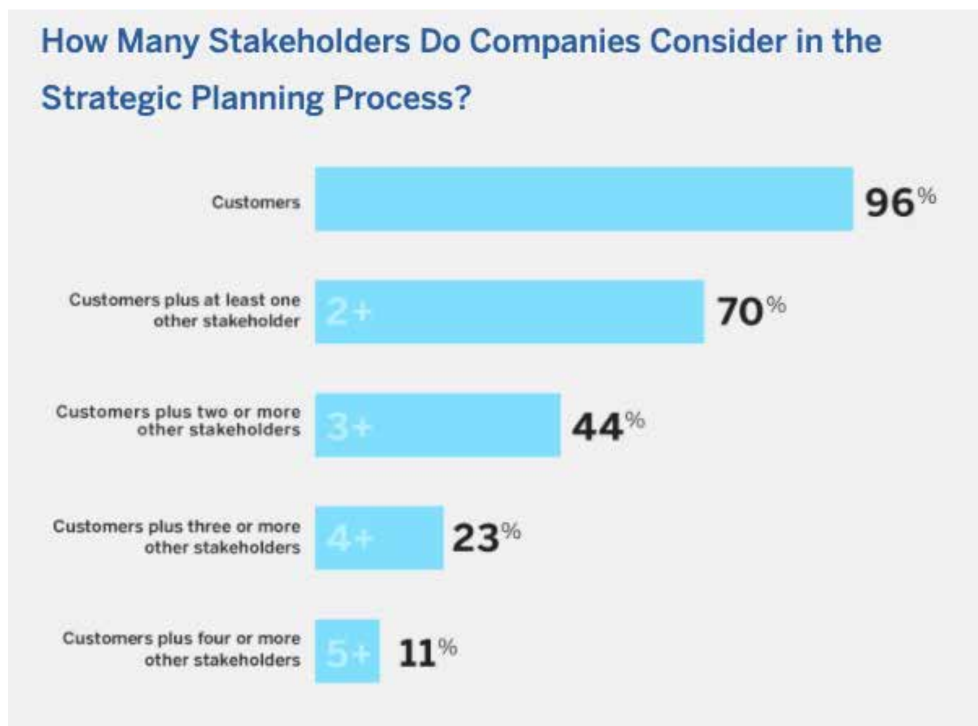
But over the past 20 years, three developments have challenged the validity of this traditional approach to strategy:

1. Technology has blurred the boundaries between industries, eroding the stable economic structure on which a "five forces" analysis is based.
2. Financial capital is no longer the scarcest asset. Increasingly, companies compete and succeed on the basis of customer attention, employee talent, and intellectual property.
3. The primacy of shareholders (predicated on the importance of financial capital) has been challenged. Multiple stakeholders are now recognized as meaningful contributors to a company's value creation activities.

The initial response to these changes was to rediscover the importance of customers. (We specify rediscover because Peter Drucker had already observed — in 1954, no less — that

the purpose of a business is to create a customer.) In quick succession, ideas introduced by Clayton Christensen in Jobs to Be Done (2007), Tim Brown in Design Thinking (2008), and Peter Fader in Customer Centricity (2011) became the new orthodoxy. This led to the elevation of customerbased metrics, such as Net Promoter Score and customer lifetime value, to the same strategic level as capital-based metrics, such as return on equity and return on capital.

This emphasis on customers is clear from our recent data: Ninety-six percent of survey respondents claimed that the customer is at the heart of their business strategies. However, the same research revealed that only 11% of companies take a comprehensive stakeholder perspective when developing strategy, as shown in the figure “How Many Stakeholders Do Companies Consider in the Strategic Planning Process?”




Restricting the focus of strategy to the needs of customers is like trying to complete a puzzle that’s missing some of its pieces. The puzzle of sustainable business success cannot

be solved as long as we regard companies simply as legal entities for generating an excess return on capital. Solving the puzzle requires viewing companies as social entities that exist in a multifaceted economic environment and are engaged in value exchange with multiple categories of stakeholder.

Seen this way, the debate over shareholder versus stakeholder capitalism is about replacing a linear, mechanical metaphor for business with a dynamic, biological one. Employees, partners, and communities are not commodity inputs to afinancial model but essential participants in an adaptive economic ecosystem. In biology, the food chain is based on the transfer of energy; in commerce, the transfer of value between different stakeholder groups creates a vibrant and sustainable business ecosystem.

By expanding the number of constituencies with whom exchanges of value can be undertaken, this biological mindset increases the variety of strategies available to companies. Below, we highlight the successes that a range of companies have achieved by addressing the needs of four groups of stakeholders beyond investors and customers: employees; upstream partners, such as suppliers; downstream partners, such as distributors; and communities.

**Value Creation With Upstream Partners**

Supply chain management has evolved in complexity (particularly during the pandemic), becoming a key element of strategy. The importance of certain suppliers to a business's overall value proposition is dramatically illustrated by the current shortage of new cars due to the auto industry's inability to source the semiconductor chips required to monitor tire pressure, govern seat positions,and control entertainment systems, among other features.

The strategic value of key suppliers means they are handled by dedicated teams. Leading retailers understand that their appeal to shoppers is based on a combination of predictability and surprise. Costco classifies 75% of its product range as "triggers,"

essential items that Costco members know they need, and 25% as "treasures," discretionary items that delight members based on their quality and price. In a similar vein, some grocery chains recognize the mutual benefit they can create with small suppliers; in return for providing these suppliers with shelf space, Whole Foods and Trader Joe's have been able to cement their reputations as unique places to shop. Both have developed teams that source novel items in parallel with more traditional procurement teams that source staple items.

We've previously highlighted Pfizer's strategy of partnering with other drug developers and offering them access to its drug development and commercialization capabilities and reimbursing much of their development costs. This "build-buy-partner" strategy, which came to be known as Partner of Choice, accelerated these partners' growth while also enabling Pfizer's access to new drug pipelines. (Note: One of our coauthors was directly involved in the development of this strategy.)

**Value Creation With Downstream Partners**

Traditional channel management merely required the right financial incentives in the form of commission payments and market development funds. But meaningful, value-creating relationships require more active collaboration with channel partners. To increase the lifetime value of customers, manufacturers must evolve from simply selling products to customers through the distributor to providing solutions to that customer by leveraging distributors' experience and insights.

Several of today's leading technology companies, including Apple and Alphabet /Google, have invested in community platforms that provide opportunities for developers, distributors, and end users to collaborate, cocreate, and specialize. Rather than eliminating or limiting their distributors' roles, tech companies have provided support services, online forums, and marketing tools to help those distributors evolve into partners that add value to the overall end-user experience.

Building materials multinational Cemex worked closely with hardware store owners in Latin America to formalize a distribution network known as Construrama. These distributors received training, access to financing, and branding support that increased their revenues and expanded Cemex's geographical coverage and distribution reliability. This initiative has grown to over 2,000 locations in Mexico and broader Latin America as Cemex has granted a high degree of autonomy to the distributors (subject, of course, to adherence to approved use of the Construrama brand).

**Value Creation With Communities**

The current emphasis on environmental, social, and corporate governance concerns is a testament to how expectations about corporate social responsibility and the role of business in society have shifted. Many companies responded to this shift by highlighting existing activities that burnish their credentials as "purpose-driven" enterprises that manage to a triple bottom line of profit, people, and planet.

But nearly two years after the Business Roundtable's 2019 revised declaration about the purpose of a business, cynicism persists about whether companies' deeds have matched their stated aspirations. We are nonetheless encouraged to find many inspiring examples of companies that are meeting customer needs while deliberately improving the economic and social well-being of their local communities. The Ecuadorean steel company Adelca is creating a truly circular local economy by providing a market for scrap metal that has significantly improved living standards within the communities where it operates. The Guatemalan company Wakami was created to provide a livelihood for indigenous craftspeople (who are overwhelmingly women) and help preserve their cultural heritage.

Corning, Ford, and M&T Bank have invested heavily in their local communities, one in support of an eponymous smaller city (Corning, New York) and the others in helping to transform the large, economically challenged cities in which they are based. Ford is building a world-class research and engineering campus in Dearborn, Michigan, while M&T Bank is

creating a technology hub in Buffalo, New York. These three companies aim to improve their local economies by recruiting highly sought-after R&D, engineering, technology, and management talent who might not have previously considered moving to those areas.

In the broader global context, research has shown that consumers are becoming more socially and environmentally conscious and are increasingly willing to pay higher prices for offerings that are sustainably sourced or designed to be reused or recycled. The strategies of B2C companies like Chipotle, Patagonia, and New Belgium Brewing are based on appealing to customers who are willing to pay a premium for more ecologically sustainable products. In the B2B sector, John Deere's See & Spray technology reduces the use of certain forms of herbicide by 75%, benefiting the farmer, the surrounding community, and the environment.As these companies distinguish themselves with more earth-friendly products and practices, they benefit from being perceived as valuable members of the local community, in addition to enjoying increased customer loyalty and higher margins

## A Broader Perspective on Value

These examples illustrate how companies have uncovered new sources of value by understanding and meeting the needs of stakeholders beyond their investors and customers. By finding ways to increase the value delivered to these constituencies — employees, business partners, and local communities — companies have created new markets, developed new relationships, and enhanced their standing with customers — improving their fit to purpose — while refining their distinctiveness, pricing power, and cost position, which boosts their relative advantage. Their successes suggest that the traditional shareholder capitalism approach to value creation can obscure the wider opportunities enabled by a more creative and inclusive approach to strategy.

Replacing a mechanical metaphor for business with a biological one encourages business leaders to think of their companies as social entities participating in a complex and dynamic ecosystem of value exchange with multiple constituencies. With this broader view of strategy, identifying the full range of stakeholder groups that you serve, and where and how you can systematically improve the exchange of value with them, becomes the task of innovation.

**ABOUT THE AUTHORS**

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**THE STRATEGY OF CHANGE SERIES**

**MIT Sloan Management Review describes the goal of the series as follows:**

*To develop effective strategy amid constant change, leaders must hone their ability to determine which changes will boost their organization's competitiveness. This series examines data from companies worldwide to provide practical insights for business leaders seeking advantage as they navigate complexity and change.*

**Article 1 – 13 August, 2020**

**Changing How We Think About Change**

Introduces the idea that change can take three different forms – magnitude, activity or direction – and that the form of change that is appropriate for your business depends on how you are performing on the key dimensions of fit to purpose and relative advantage.

**Article 2 – 17 December, 2020**

**The Essence of Strategy is Now How to Change**

Argues that traditional approaches to strategy are based on two assumptions that are no longer valid – stable industry structures and shareholder primacy. Demonstrates how a focus on fit to purpose and relative advantage provides a reliable and timely guide for how businesses can improve their performance across multiple stakeholders.

**Article 3 – May 20, 2021**

**Most Businesses Should Neither 'Pivot' nor 'Double Down'**

Challenges the received wisdom that business leaders have to decide between doubling down on their existing strategy or pursuing some radical transformation. Shows how the change signal for two-thirds of companies is "reimagine activity" (sticking to an existing strategy but innovating the tactics used to achieve it).

**Article 4 – August 5, 2021**

**Great Strategy Considers More Than Just Customers and Investors**

Proposes that companies are social entities that exist in a multifaceted economic environment. By expanding the number of constituencies with whom exchanges of value can be undertaken, this biological mindset increases the variety of strategies available to companies.

**Article 5 – October 5, 2021**

**Effective Innovation Begins With Strategic Direction**

Argues that innovation is not an end in itself but the mechanism for achieving specific forms of change. Discusses the type of innovation that are best suited to a goal of enhancing magnitude vs. that of reimagining activity vs. that of shifting direction.