CHAPTER NINETEEN

Third Generation Quality Management II: Alignment Implications for the Business Proposition, Strategies and Value Creation

David Foster
University of the Sunshine Coast,
Queensland, Australia

Jan Jonker
Radboud University, Nijmegen, Holland

Introduction

Businesses are increasingly battered by their external environment and have to respond to a number of new pressures and agendas. These include all forms of stakeholder demands such as to look after their staff, care for the customer, produce in a sustainable manner, address issues of child labor, etc. Generally these demands are labeled a quest for Corporate Social Responsibility (CSR) or Sustainable Development (SD). CSR and SD are considered to be two intertwined societal-organizational 'movements' which are addressing the changing role of business in society. At present a growing 'choir' of voices from academia, business and politics can be heard creating growing awareness around this 'inconvenient truth'. So Al Gore, stand side-by-side with Ed Freeman, David Korten, Noami Klein and Alfred Stieglitz. However, while the interest in these prophesies is high, little (organizational) action seems to be evident.

Organizations are operating in both a business and societal environment. The acceptance of this 'double' environment has gradually led to the recognition of various groups of traditional stakeholders (such as employees, suppliers and stockholders) and new stakeholders (such as NGO's, Governments, and local communities). It has been shown that both groups of stakeholders have an impact on the way a company operates. This is reflected in the stakeholder model of the corporation which now seems to be well accepted. The essence of our earlier proposal that we are entering a Third Generation of Quality Management is that companies should recognize that they operate in a world of stakeholders and that they need to respond, in one way or another. This requires the creation of different forms of value that reflect their differing demands. However, because these stakeholders represent different interests, conflicts and dilemmas are inevitable. Business has been operating for decades in a tradition of one-dimensional economic value creation. What this movement suggests is that additional forms of value creation need to be recognized and accepted. Some respond by developing the 'business case' for CSR and SD. While this is an interesting and even a promising development, the focus of this pursuit of a business case remains chiefly on singular economic value creation.

Companies respond to stakeholder demands by deploying all kinds of activities, thus almost 'incidentally' establishing various approaches or 'sub-strategies'. These sub-strategies may focus on HR, procurement or community involvement. However, it appears that these activities often stand alongside rather that being integrated into the dominant business strategy. They live a life of their own and seem hardly connected with the actual business of a business. Circumstantial evidence would suggest that this alignment is much less than one would expect. The question then emerges: how do they align and in what way should they align? This alignment we think is crucial. If alignment is not realized these activities designed to respond to stakeholder pressures remain a kind of 'modern philanthropy', a charitable exercise that has nothing to do with the business of business. Alignment can be translated as horizontal and vertical congruence and is based on a process of strategizing. By strategizing a company 'makes' intentional choices about how to position itself in the marketplace. The outcome of this continuous process should lead to an identifiable business proposition. The heart of this proposition should be multiple value creation for various stakeholders. However, how companies can strategize to ensure alignment between the demands of various stakeholders and the business proposition remains the key question.

This contribution sets out to investigate this strategic process of alignment between the business proposition and the creation of multiple values. It does so by taking an established and recognized management model (EFQM) and adapting it so that the issue of alignment becomes transparent. The choice of an established model is based on the assumption that their proponents suggest that they are more than a program – they have to apply to the whole organization. This is the same as saying that they need to align with the business proposition. It is therefore argued that the essence of long-term success is to link stakeholder responses to the business proposition. This may be very difficult and may, in the longer term, involve modifying the business proposition itself.

The modern business corporation has been the focus of numerous scholarly articles and research activity for several decades. Amongst those interested in this phenomenon are those who have had some involvement with the quality movement. These scholars have demonstrated that as organizations have become more central to the maintenance of all aspects of life in contemporary society, so too have they become the target of enormous criticism and negative comment from sectors of that society. Calls for greater corporate social responsibility, more sustainable development and the general consideration of broader social and environmental issues have become commonplace.

Organizational theorists recognized many years ago that organizations, including the business enterprise or corporation, are not closed systems. They rely on interaction with their environment in some way, usually in terms of inputs of raw materials and labor and the delivery of products and services to customers. This has been conceptualized into a stakeholder perspective of the corporation where those who have the ability to affect the inputs, or are affected by the outputs, are conceptualized as stakeholders. Organizational theorists have grasped this concept and made much of the need to manage stakeholder relations in order to achieve corporate success.

Not so well hidden amongst this conceptualization was the idea that some of these stakeholders are not interested in business success or corporate profitability (Freeman, 1984). They are driven by other imperatives such as social justice, labor rights, child poverty, etc (Andriof and McIntosh, 2001). While those responsible for managing these modern corporations may also believe strongly in the same things, the thrust of most management texts and other literature has been to encourage them to focus on the things seen as relevant to business. The popularity amongst managers of Sun Tzu's *Art of War* is partly a reflection of this attitude.

This paper follows on from a series that has suggested that there is a fundamental change occurring in both the organizational literature and the practice of management. This includes a change in the way the corporation is conceptualized and the role that issues that are outside of the traditional business context are handled. This paper attempts to build on these ideas by looking at fundamental questions as to how the corporation should be structured to achieve success in this new environment. There are many examples where so-called strategies are established to address particular issues of concern to those stakeholders representing broader societal issues. However, we regard these as tokenism as these (sub) strategies are rarely aligned strongly to the over-arching strategy or business proposition of the corporation. On the other hand, we have uncovered examples where corporations are genuinely grappling with this question of alignment. This paper explores this question in order to clarify what alignment means and what its implications are for corporations operating in contemporary society.

Third Generation Quality Management

We have argued elsewhere that the quality management movement is undergoing such momentous change that it is experiencing a generational transformation (Jonker and Foster, 2003). This change builds on, and adds to, the traditional ideas surrounding quality management. Changes in the business environment have necessitated greater emphasis on hitherto less important aspects of management including relationships, engagement, accountability and interconnectedness. At the same time, this has involved attempts to underpin quality management ideas and techniques with a firm conceptual, even theoretical, foundation and to bring those more in line with mainstream management thinking (Foley, 2001, 2005; Foley, Hensler and Jonker, 2007).

Of particular interest here is the latter where scholars, rather than consultants or practitioners, have turned their attention to fundamental questions about the nature of organizations. The fact that such questions have rarely been of concern to those promoting quality management in the past has led one author to suggest that “quality management has become prey to the charlatan, and today languishes in an alphabet soup of management aids (TQM, JIT, BPR, ZBB, OD, MBO, etc,) as another fad” (Foley, 2005: ix). Without some understanding of organizations, in particular of the business enterprise, it is almost impossible to take a holistic view and to evaluate how (if?) these ‘aids’ actually work. Of particular importance in this quest for understanding is the question of the essential characteristics of the business enterprise, its aims and the boundaries of its interests and responsibilities.

When these questions about the business enterprise are addressed the emerging consensus is that the modern business enterprise is a much more open, interactive phenomenon than has hitherto been the case. This perspective is driven by an analysis of the behavior of modern business enterprises which demonstrates that it no longer singularly focuses on the creation of shareholder value. The evidence is clear; corporations are attending to interests that extend beyond profit. The quality movement has been part of the pressure exerted on business enterprises to open their area of concern to include the customer in all its variants. Others have ensured that greater attention is also paid to suppliers and to staff, and more latterly to social and environmental interests that would not have been considered a few decades ago. The literature has encapsulated this into a stakeholder model of the business enterprise (Freeman, 1984; Key, 1999), where the phenomenon of the business enterprise is viewed as a collection of self-interested parties that have come together to create value(s) through their common actions.

We therefore see the corporation or business enterprise as a collaboration of multiple and diverse constituencies and interests leading to a nexus of contacts and contracts. In general these contacts and contracts are with entities that we refer to as stakeholders. Our stakeholder view of the corporation integrates stakeholder relationships within the firm's resource base, its industry setting, and its socio-political arena into an analytical framework in which we make a distinction between the social context and the business context in which a company operates simultaneously. Our central proposition is that organizational value can be created (or destroyed) through relationships with stakeholders of all kinds: resource providers, customers, suppliers and social and political actors. Therefore, effective stakeholder engagement involving the creation and management of relationships with various stakeholders for mutual benefit in the short and long term is a critical competence for corporate continuity and a defining characteristic of Third Generation Quality Management. However, stakeholder engagement is of relevance only in terms of the outcomes that result – the value creation that occurs as a result of that engagement. This will only occur if that engagement influences the nature and operationalization of the business proposition or business strategy - the essence of any business enterprise. We will return to this point later.

Operating in both a business and societal context

Corporate leaders have long understood the value of listening and responding to the concerns of their stakeholders in order to take innovative advantage of new opportunities and to anticipate and deal with problems before they become critical. Such activities have in the past often been described in terms of 'enlightened self-interest'. We argue here that organizing specific stakeholder relationships is central to the creation (or destruction) of organizational value, and hence to the core purposes and operations of the corporation. Much of the present focus in the professional managerial literature - and practice - on 'customer relationship management', 'supply chain management', 'intangible assets', and so on, already rests implicitly on the proposition that the corporation is increasingly operating as a network of interdependent people, processes and organizational configurations bound by multiple interests. These all exist in the business context and are well accepted and practiced as core competencies.

Progressive leaders have also recognized the need to extend this competency to stakeholder issues concerning the societal context. In the past these issues were generally regarded as being outside the purview of business. As calls for corporate social responsibility have increased, so too has acceptance of the need to respond to these issues. According to Sethi, (1979) and Arriga and Mele (2004), it is possible to identify a series of stages that corporations have gone through, or are going through, as they move from a resistance or denial approach to more of a proactive approach to these issues. We contend that this again represents an extension of the same phenomenon – that of a corporation operating as a network of interdependent people or groups, processes and configurations bound by multiple interests.

In one sense, the situation can be seen as impossibly complex as many stakeholders have multiple roles. Employees can also be members of environmental pressure groups or even customers of the business that they work in (Foster, 2005). In another sense, it can be seen as surprisingly uncomplicated. If the subject of the particular issues promulgated by these diverse stakeholders is ignored, the essential challenge that faces all organizations (in particular the business enterprise) is the need to operate within an open networked environment characterized by multiple (often competing) interests and perspectives in a manner that creates value for those involved.

The latter comment is not to deny the complexity of the situation faced by managers. Rather it is to focus on the fact that the core competencies required to manage a modern, multifaceted business enterprise that has found itself facing issues hitherto not commonly addressed are much the same as those required previously. The issues themselves may be more complex, but the way in which they can be addressed requires the ability to bring groups with different interests together, to develop common understandings about ends as well as means, and to recognize what value creation implies to each party in the network.

In order to operationalize this, the business enterprise needs to be structured and managed appropriately. Trying to conceptualize this and to determine its implications becomes the real challenge. The evidence to date suggests to us that we have a long way to go in this area. There is appropriate intent amongst many in business. What quality management scholars should be working on is to help them to identify what this means in terms of structure, process and outcome. It is to this that we now turn.

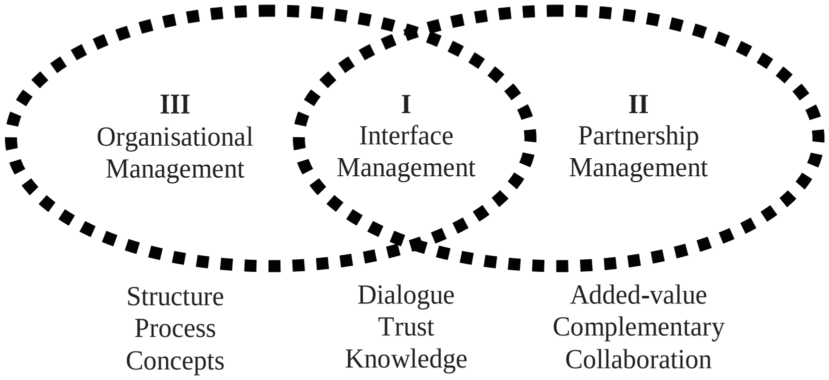
Future Quality Management Models

As we move into this new reality where business enterprises are engaging with issues that extend into the societal context, the challenge is to conceptualize a new generation of management models to help put these ideas into practice. To advance our thinking we need to consider the organizational challenges created by this changed environmental framework. When assessing the different requirements that emerge as a result of the transformations outlined above, three interlinked organizational challenges can be observed. These are represented in Figure 1. We have labeled them as follows: Interface Management, Partnership Management and Organizational Management. Each of these challenges will be described, demonstrating how strongly they are connected.

Interface management

The issue of how to organize the interaction with relevant stakeholders on contemporary or emerging issues in both the business and societal context is particularly challenging. This challenge focuses on the dedicated competencies of an organization to be able to 'listen' to its environment, not only in a business sense but also in a social sense. It raises the issues of how this interaction is organized in terms of systems, its impact and underpinning values. So interface management is not just staying in touch with some self-selected constituencies. Rather, it is a systemic attempt by the organization to listen and respond to its wider environment while not neglecting its traditional responsibilities. Being able to develop and demonstrate this communicative-competence, involves more than talking and listening but being able to translate the result into balanced acts supported by a strategy. Many companies claim to have a (active) stakeholder dialogue but when we look for proof in, for example, annual reports the evidence suggests that this is more akin to manipulation than collaboration (Arstein, 1969)

Figure 1: Organizational challenges



Partnership management

This second challenge raises the issue of how to design the organization, in part or as a whole, to focus on creating partnerships either in value-chains and networks that add value, now or for the future. Businesses have a long tradition in creating partnerships so in this respect there is nothing new here (Patching and Waitley, 1996). When companies start to develop partnerships in the wider societal context as a result of acting upon issues raised through systematic interface management, unforeseen challenges will arise. In order to address these challenges (we might think of issues such as wider societal health problems, natural degradation or a future shortage of water) looking for partners with complementary competencies might be the key. As a result either new value-value chains or networks can be created specifically addressing one or more of these issues.

Organizational management

The third and final challenge addresses the question of how to design – or how to structure - the organization, embedding the role(s) of stakeholders and partners into organizational competencies and the portfolio of processes. It would be rather naïve to think that well-elaborated functional-structural designs could cover all of the challenges raised here. We do not deny that classical functional design has great merits. On the contrary, the basis for value creation as we know it has been brought about due to this design. We think, however, that that particular design was, and still is, based on a perception of the business enterprise as a closed-system with clear boundaries. When taking the pervious two challenges into account it becomes obvious that a company will need to transform into an open system. Designing and managing such a system – one that is in a constant flux – thus becomes perhaps the most fundamental challenge of all three. Our body of organizational knowledge and practice, when it comes to design and management, is still primarily based on closed-system thinking. A whole new universe of research and development challenges emerges here.

So, the modern business enterprise needs to organize itself in a manner that addresses these challenges. Given the central role of processes in organizational management, this means that the business enterprise needs to create and maintain a portfolio of processes (internally and externally) that enables it to participate in (or manage) value chains, networks and projects within both the business and societal context. This will be done to create different forms of value for different stakeholders (simultaneously). When organizations make this transformation, there are three key questions that they will be addressing: (i) how will they organize (structure) themselves within a framework of cooperative networks rather than competitive battlefields?; (ii) what will be the expectation(s) of those in this cooperative network?; and (iii) how will those in these cooperative networks know that the organization has delivered on its expectations? The focus therefore becomes one of using cooperative networks to deliver outcomes (value) for participants (stakeholders).

Value Creation

An important aspect of this changed perspective on the business enterprise that needs to be clarified further is that of value creation. The traditional Freidmanite view of the business enterprise is that its primary purpose is to create value for the shareholders. Explicit in the stakeholder perspective is the understanding that in order to be successful (read to survive) the business enterprise must also create value for those with whom it has a stakeholder relationship in both the business and societal context. This does not deny the shareholder imperative. It simply acknowledges the affect that other stakeholders can have on achieving this. As noted above, the business enterprise is a networked organization that seeks to harness the diversity of positive and negative contributions of stakeholders. In order to do this, each party to the relationship will require some form of benefit in the form of value creation.

Burke and Logsdon (1996: 497) have acknowledged the centrality of value creation: "Value creation is commonly viewed as the most critical objective for the firm and its strategic decision-making processes. . . . . Firms create, or attempt to create, value in their on-going business activities through investments in new technology, new products, brand awareness, production facilities, training and customer service". This is well accepted in the literature. However, it is the beneficiaries of that value creation which is of most importance in the modern business enterprise. Value creation needs to be considered in terms of all those involved. Without the opportunity for this to occur, in all its forms, then their continued participation (read cooperation) may not be assured.

An organization can be defined as a group of human beings in all their complexity creating value for each other (adapted from Freeman, 2006). Creating value means earning a return on invested capital(s) that exceed the cost of all capital(s) over time (Favaro, 1998). This value creation is based on collaboration and interaction, is context bound, customized by the perceptions of those involved and time dependent. So, if the survival of a business enterprise requires the generation of value then it is crucial that whatever is created (either tangible or intangible in nature) is perceived and acknowledged as being of value by those involved. As this value creation implies transformation of commodities, knowledge, ideas, etc., then it involves the use (and potential destruction) of capital (or resources). It is therefore imperative that the value creation be measured in the context of both the perceptions of those involved and the nature and value of the capital used.

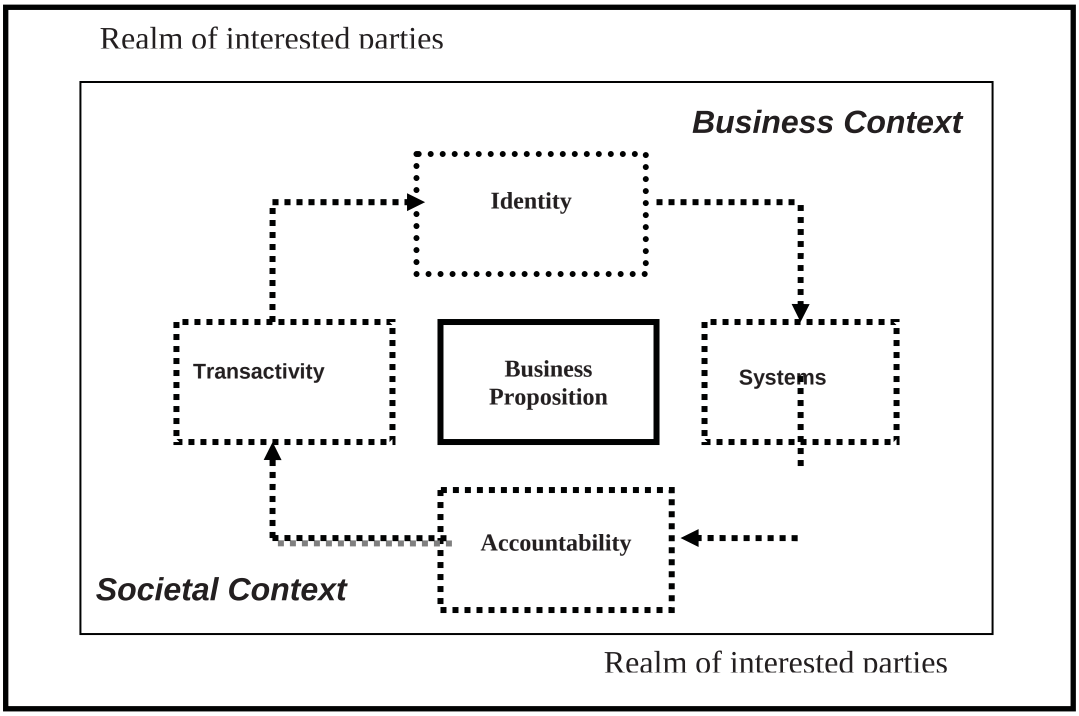
The capital involved can be categorized as human, environmental, financial and social. Each of these is required to provide the means to drive the cooperative networks that use processes to create value. Value therefore can be described in terms of what happens to this capital through the transformative processes. In terms of human capital we are talking about such things as in-house competencies, talents, capabilities and shared identity required to deliver what is promised. An increase in value in this area would require an improvement of any or all of these aspects to a level that is perceived (assessed) by those involved to be greater than had they not participated. In terms of environmental capital we are talking about the use of natural resources in such a manner that their availability for future generations is not compromised unnecessarily. Financial capital is well understood, even though it now comes in various forms (such as artificially inflated currency, various forms of loans, etc.). Finally, by social capital we mean the social framework within which we all live and the goodwill that is generated within that social framework to create information, influence and solidarity (Adler and Kwon, 2002).

Of course, given that stakeholders and other collaborators get involved on the basis of expected outcomes, an important aspect of quality management is the assurance that one has that the expected outcomes will be delivered. This reminds us of the importance of accountability and its role in maintaining the support of those involved, and brings in an important dimension that has been integral to other quality management thinking.

We are convinced that in order to survive a company should be able to recognize, assess and subsequently organize to address these three management challenges in an integrated way. This should focus on the need to create added value by consciously focusing on both business and societal developments through dialogue and engagement, and by adapting its outputs to these developments. We think that developing this integrated perspective leads to a worldview that is recognizable and really matters for managers, employees, partners and stakeholders. Such an integrated approach based on values (Sharp, 2003) irrevocably shows the way to incorporate wider societal expectations. Still, while this shapes direction it does not help to focus on the actual policies and practices of the enterprise itself.

These ideas can be encapsulated into what we have called a business management model (See Figure 2). The model is structured to reflect all three challenges outlined above (organizational management, interface management and partnership management). The key components identified in the model are seen as important in the management of the business enterprise as it operates as an open system within an increasingly dynamic context. The identified components of the model are not functional departments. Rather they are organizational responsibilities that will be affected by the strategic decision to engage with or create cooperative networks to produce value in all its forms for those involved (stakeholders). The key issue is how the business enterprise, through each of these components, organizes its relationship with the context(s)[1].

Figure 2: The business management model



There are four important components or responsibilities of management necessary to create value(s) in the context in which it operates. These are:

1. Identity – clarifying who we are and what we stand for. These are the values driving the conduct of the corporation with regards to its societal and business context.

[1] It is important to recognize that the context refers to the realm within which the organization operates. It includes the stakeholders and their interests. Outside this context is the realm of interested parties.

2. Transactivity – the way in which the corporation organizes its interaction with the means of production. This is the way that management mobilizes the entities (stakeholders) and capital(s) that are the basis of value creation.
3. Processes – the way in which the business enterprise arranges its internal operations to transform the capital into goods and or services that represent one aspect of value creation and impinge on others.
4. Accountability – the way in which the business enterprise justifies and reports on company activities that affect those in the context whose support is required for on-going value creation and survival.

These organizational components constitute the main way that the corporation can structure its activities to achieve collective goals and outcomes.

At the centre of the model is the 'business proposition', which refers to the way that the business enterprise sees its primary role of producing value(s). It is the overarching strategic positioning of the enterprise to ensure the production of value in its myriad forms for those involved.

This becomes the basis for our claim that quality management has (or is moving towards) a third generation. In this, quality management is about assuring (in a consistent and transparent way) multiple value creation for multiple stakeholders. This is consistent with the parallel work of Foley (2005) who has argued convincingly that "the business aim of sustained success will be accomplished if the enterprise is managed to *optimize the quality of product and service to customers, subject to meeting the needs and expectations of non-customers"* (Foley, 2005: 215; emphasis in original). While it could be argued, as Foley (2005) and Sarasohn (1997) have, that the customer is the quintessential stakeholder, our acknowledgement of multiple value creation places the focus of attention on all stakeholders, irrespective of their rank. Moreover, it places the primary spotlight on the assurance of that value creation. This fits well with the history of quality management.

Before going on to review the issues of the business proposition and strategy development, it would be valuable to relate these ideas (and the model just presented) to a well known management model.

Applying these ideas to the EFQM Model

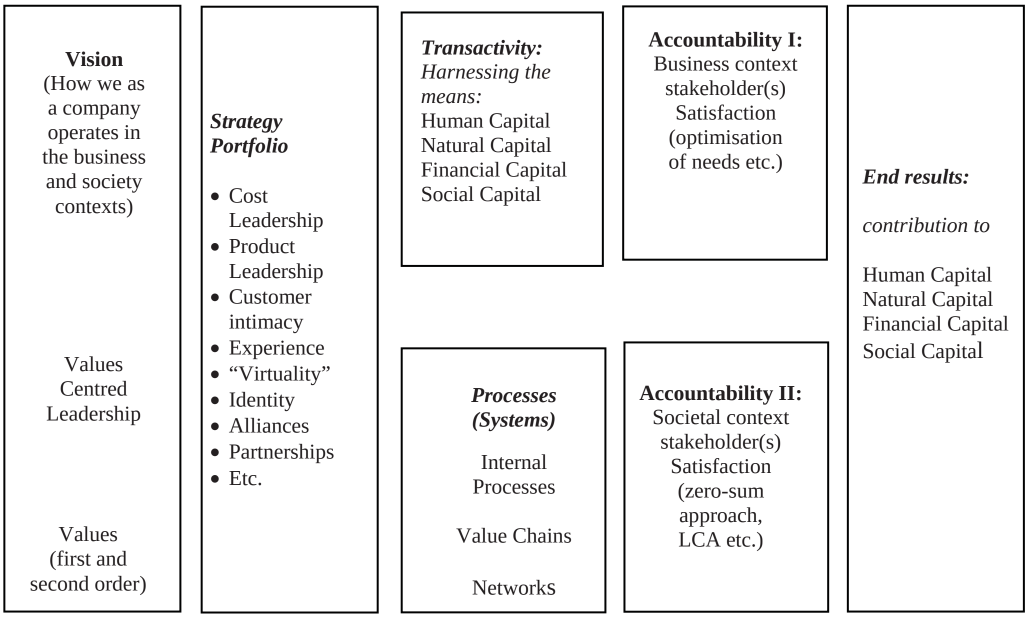
This focus can be further elaborated by using the well-known EFQM Model. (There is no need to elaborate here on the model and its developments - see www.efqm.be for a quick reference). What we propose below (See Figure 3) is an adapted version of this model in order to translate our line of thinking into a holistic framework. This is based on an extensive body of practice and thus recognizable by a vast array of organizations. The departure from the accepted EFQM Framework tries to take into account the developments and reconceptualizations described above.

Starting on the left of the model we think it is essential that a company develops a ‘worldview’ - a perspective on how they want to position themselves in contemporary society. This will be more than simply creating shareholder value. Developing this vision implies values centered leadership and a recognizable and enactable set of values. These are the values that must be linked to the actual business proposition (first order) and the organization (second order). In this respect it is pleasing to see the recent upsurge of attention given to the role of values in organizations. These concern both the societal and business contexts. This is very similar to ‘Identity’ in Figure 2.

A company creates value through the use of different types of capital. We make a distinction here between human capital, social capital, natural capital and financial capital. These capitals are seen as inputs hence they are not identified specifically in Figure 2. The important thing for any corporation is the mobilization of these capitals through what we have called transactivity. Having access to these capital types and making sure that they can be harnessed positively for the value creation processes thus become crucial for continuity.

The latter are put to use in a customized business strategy based upon a worldview. Elaborating on Treacy and Wiersema (1995) and Pine and Gilmore (1999) we propose a range of fundamental business strategies. We see a strategy as an intentional operational translation of a company's philosophy leading to focused action. Choosing elements from these strategies leading to a customized amalgam or adopting one in particular is the liberty of choice of any organization.

Figure 3: EFQM Model revisited



The actual acts of production take place in what we have called the portfolio of processes. Important here is the distinction between on the one hand tangible and intangible process and on the other hand functional and therefore predictable processes verses emerging processes. Furthermore, the scope of processes becomes an important issue. Contributing to various value chains; knowing what in each of these value-chains the contribution is and when it should be created, demands a different concept of how to manage. This becomes even more complicated when acting in dynamic networks. Conventional notions such a controllability, responsibility and manageability thus require a redefinition in order to adapt to this new reality.

On the results side we make a distinction between three categories of satisfaction: business-context stakeholder satisfaction, societal-context stakeholder satisfaction, and contribution to capital creation. The creation of stakeholder satisfaction can be translated into how a company organizes its accountability mechanisms to assure stakeholders that their diverse interests are being delivered in order to create a dynamic level of optimization. Finally, we think the acts of a company can and should be judged on the basis of how its operations contribute in a continuous way to the creation and maintenance of various capitals. This does not imply that creating financial capital (profit) becomes obsolete; the key characteristic of the business enterprise when compared to other forms of organization remains profit making. What changes, and will have a dramatic impact, is that the philosophy behind it moves from profit maximization to profit optimization. The need to take into account various costs that are currently often regarded as external will have a significant impact on the contemporary business model.

Aligning strategies

Any review of the daily papers, trade journals and scholarly literature would suggest that business enterprise's display an increasing interest in many aspects of the societal context in which they operate. This stands alongside their traditional interest in the business context. Freeman's separation fallacy is thus confirmed. Suggestions that the corporation exists in a separate world, isolated from the society (but not necessarily jurisdiction) in which it operates seem to be quite out of step with reality.

There is considerable empirical evidence that companies do respond to the demands of the newer stakeholders which represents interests within that societal context. In the aviation industry, Sir Richard Branson has responded to the criticisms about the high levels of carbon emissions of airplanes by promising to spend over $US3 Billion on research to address this problem. Over the next ten years he intends diverting all of the profits from his travel firms into a new renewable energy business called Virgin Fuel. In the publishing industry Rupert Murdoch announced in May this year that all of the businesses operating in his vast media empire would be carbon neutral within two years. In the footwear and clothing industries, corporations have responded to criticisms that they were exploiting workers in developing countries. Perhaps the best known example is Nike which, in response to extensive and consistent criticism of its labor policies, in 1992 introduced a code of conduct which they describe as a "straightforward statement of values, intentions and expectations and is meant to guide decisions in product facilities".

These are all admirable initiatives that may or may not have come about without stakeholder pressure. What we do know is that corporations operating in these sectors of industry have faced stakeholder pressure about a myriad of different issues. What we also know is that many corporations have developed new programs or policies about many of these issues. Although it is difficult to establish a direct link between any individual corporation's actions and the pressure exerted by various stakeholder groups, it is now well established that at least some actions are in response to pressure rather than being a consequence of spontaneous strategic development (Zadek, 2004).

The issue that needs to be addressed, however, is whether these actions are simply programs or projects that stand alongside, rather than being integrated into, the dominant business strategy. Do they simply address the specific issue as though it was disconnected with the primary business function of the corporation? For example, the pressure group 'TurnUptheHeat' has criticized Sir Richard Branson's initiative on the grounds that while the project to develop new bio fuels progresses, the Virgin group of companies will continue to expand its fleet and, in the case of Virgin Atlantic, follow a three year growth plan aimed at attracting the premium end of the market where each passenger takes up more space and generates more carbon dioxide on a per capita per kilometer basis than if they target other sectors of the market. While this may be disputed by the Virgin group, it illustrates the potential problem being raised here. Many corporations address these issues as though they are peripheral to the main business of value generation. A project or program is established to address the specific issue while business continues as usual.

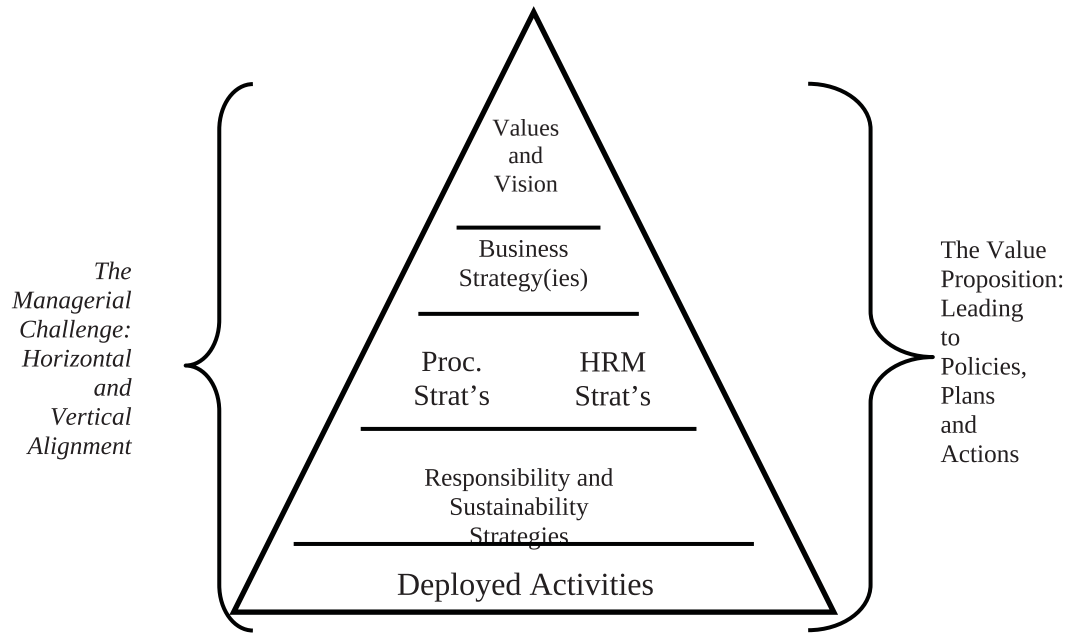
This is reminiscent of what happened in the earlier generations of Quality Management. Despite numerous exhortations that quality was of concern to the entire corporation, many companies bought into individual programs or used specific techniques such as quality circles, just in time and business process re-engineering. Only those corporations which integrated quality ideas and philosophies into the entire fabric of the operation and aligned their strategies accordingly actually benefited. Is the same thing happening again?

To understand what is going on we need to look in more detail at the nature of strategy and what this means for the models proposed above. We see strategy as being about making intentional choices leading to value creation. It involves the deliberate determination of how the corporation will achieve its value creation goals through the deployment of various resources at its disposal. This is the *how* side of the equation. We have labeled this the 'Business Proposition' – the way that the business will achieve it ultimate goal of wealth creation.

For several decades business texts have lauded the importance of developing strategies to ensure long-term business success. Authors like Miles and Snow (1978), Porter (1985) and Miller (1987) have developed a range of strategies that are all aimed at improving the way in which the business enterprise can improve its performance by responding to changes in their own capabilities and the business environment. The strategies themselves primarily concern actions in the business context. Porter's well-known competitive strategies were all aimed at this. The cost-leadership strategy, the differentiation strategy and the focus strategy were concerned with what needs to be done to compete with other businesses. In other words, they all concern the singular objective of value creation for the limited number of stakeholders who exist in the business context. Moreover, they tend to be deployed across the whole organization. It was assumed that the recognizable components of the business context would all participate in this strategy and benefit through the creation of whatever value is of interest to them. For example, suppliers would gain value by supporting a particular strategy (e.g., competition), by keeping their costs down, and reaping the financial rewards.

When we look for strategies that extend beyond the business context, they are very few and far between. Moreover, they do not relate to the enterprise holistically in the same way as the more traditional business strategies were intended. Many scholars have pointed out that they rarely get beyond philanthropy, or at best, some form of reaction to an immediate social problem. Figure 4 illustrates this by showing the business strategies at a very high level, thereby influencing a range of other sub-strategies, such as Human Resource Management or Procurement strategies – all of concern in the business context. They are linked to the values and vision that are driving the direction of the whole corporation. Strategies that concern the broader societal context (brought about by pressure or interaction with stakeholders in that context), tend to exist at a much lower level (we have labeled these 'Responsibility' and 'Sustainability' strategies). These relate very much to the lower level deployment of activities, rather than the broader values and vision that drive the whole organization. Yet it is the latter – the values and vision – translated into a value proposition that drive the corporation and lead to policies, plans and actions. Indeed, for most corporations many of the strategies that we have labeled 'Responsibility and Sustainability' strategies have very little to do with the value proposition of the whole corporation.

Figure 4: The Strategy Pyramid



Third Generation Quality Management suggests the need for the alignment of the strategies concerning the business and societal context into a coherent whole. If the modern business enterprise does recognize the contemporaneous existence of these two contexts and is aware of the potential hazards of not engaging adequately with both, then this strategic alignment is imperative. Stakeholders are already targeting internal inconsistencies in corporate activity as shown by the example of TurnUptheHeat exemplified above.

We have identified evidence that some corporations are aware of this potential problem and have attempted to address it. This has resulted in what we call a portfolio of strategies that is the result of deliberate choices regarding the deployment of available capitals, competencies and levels of interaction to create multiple values. Instead of the corporate strategy being only directed to those in the business context, it is concerned with value creation for all stakeholders (even those who exist in and have concerns about the societal context). We have chosen the term 'value' carefully as this does not mean that these stakeholders will earn a financial reward. Value to them could mean a reduction in greenhouse gases or less exploitation of child labor. This portfolio of strategies is very complex, leads to multiple value creation and - ideally - is directly related to the main business proposition. The latter is the key. Unless this alignment is achieved then the pre-eminence of the singular focus on shareholder value will remain. So too will the increasingly complex, disruptive and negative actions of activitists seeking to get their share of organizational wealth.

Conclusion

In this short contribution we have attempted to further develop our ideas that underpin the notion of Third Generation Quality Management. We have done this by deconstructing the nature of the environmental context in which the modern business enterprise operates. This involves highlighting the (artificial) distinction between the business and societal context within which stakeholders operate in a manner that can affect the on-going survival of the enterprise itself. Having done this we argue that while most corporations have successfully adapted their strategic imperative or business proposition to the business context (as contingency theorists would confirm), the same cannot be said about their adaptation to the societal context. While a few corporations are actively addressing the question of how the complex issues associated with this broader context can be integrated into their overall business proposition, the majority appear to us to be addressing it in a piecemeal way. The result is a number of 'sub-strategies' that relate to specific activities or actions that at best bear very little relationship to, and at worst may even be contradicted by the overall business proposition. We still have a long way to go.

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