An Analysis of Organizational Vision and Mission Statements with a Focus On Eastman Chemical Company

by

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B.S. Chemical Engineering
University of South Carolina, 1978
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Submitted to the Alfred P. Sloan School of Management in Partial Fulfillment of the Requirements for the Degree of

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Abstract

This work examines the purpose, construction, and identification of stakeholders in organizational vision and mission statements. This work also reviews differing views on the governing objectives of publicly held companies and concludes that the objective of maximizing shareholder value, while acting responsibly toward all the other stakeholders, provides the best opportunity for providing long-term value to all.

The Eastman Chemical Company vision, “to be the world’s preferred chemical company”, and the mission, “to create superior value for customers, employees, investors, suppliers, and publics”, are closely examined. Value creation, from each stakeholder’s point of view, is evaluated, including the view of the employee investor. At Eastman, all employees have some equity ownership in the company.

The thesis concludes that the Eastman vision and mission are both realistic and achievable, albeit difficult. Success will depend on effectively aligning the decisions and actions of the workforce to the vision and mission. Creating value for the various stakeholders requires that the value drivers for each is understood and that tensions among stakeholders be anticipated and managed. The ability to pick up on and act on “early warning signals” that threaten the firm’s core capabilities, its competitiveness, and stakeholder satisfaction are critical for success.
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Biographical Note

Norris P. Sneed received the B.S. and Masters degrees in chemical engineering from the University of South Carolina in 1978 and 1984, respectively. He joined Eastman Chemical Company in 1979 and has worked at locations in South Carolina, Arkansas, and Tennessee. He has broad experience in manufacturing and technical organization management. He has also worked as Assistant to the Chairman and CEO of Eastman Chemical Company. Norris is a native of Lancaster, South Carolina.
Acknowledgements

The author would like to acknowledge the insights provided by Prof. John Van Maanen throughout this work. They have led the author to a broader perspective on and appreciation for the global views of stakeholder theory.

The author would also like to thank his colleagues at Eastman Chemical Company for their support on the research and for commenting on early drafts of this work. Special thanks go to Rod Irvin, Bob Savell, Kevin Bennett, Gail Preslar, and the staff at the Eastman Business Library.

Lastly, the author would like to say a special thanks to his family – Donna, Preston, Elizabeth, and Melissa, who have been very supportive throughout this work and this year at MIT.
"If you know the enemy and know yourself, you need not fear the result of a hundred battles. If you know yourself, but not the enemy, for every victory gained you will also suffer a defeat. If you know neither the enemy nor yourself, you will succumb in every battle."

--Sun Tzu, The Art of War

Many, if not all, organizations today face unprecedented challenges. Instead of becoming easier, doing business successfully has become more challenging than ever before as global competitive and economic forces have intensified. There is no status quo. Structural changes are sweeping the business world, the number of company mergers and acquisitions during the decade of the 1990s are at record levels (Rock, 1999), and large numbers of employees have been dislocated. Companies are seeking to gain competitive advantage -- or just seeking to survive. Uncertainty about the future has never been greater or more unsettling for business leaders and company stakeholders.

While debate rages about what is the real mission of business, the answer chosen by each company has major implications for the future of their business and for all the stakeholders who have an interest in the business. Companies must be clear about what they are, who they are in business for, and what they are trying to accomplish. Companies should heed Sun Tzu’s wisdom to “know thyself”. Failure to know the company’s purpose, failure to know its competition, and failure to act appropriately and in a timely manner certainly will spell defeat in today’s marketplace.

Many companies have articulated a company vision, a company mission, and a set of company values to guide them. There is little disagreement that the ability of an organization to align its workforce around the company’s purpose is a powerful weapon in the competitive
arena. The objective of improving alignment, as a method of improving performance, is one reason company management develops a corporate vision and/or mission statement. Often these statements have been deployed throughout the organization in the hope that a clear direction and buy-in are established for all.

Since an organization has many parties interested in its success, it is also important that the organization's purpose, relative to each stakeholder, be clarified. One cannot establish a clear vision and mission without being clear about the roles of those who have a stake in the company's success. It is human nature to want to know "what is in it for me?"

At my company, Eastman Chemical, we have four corporate documents, or touchstones, as I like to call them, that provide the men and women of Eastman an overall vision of what the company is trying to accomplish and how it intends to do so. The touchstones provide the starting points from which we build everything else. The Quality Policy describes our goal for the quality of Eastman products and services and the processes by which we will achieve the quality goal. The Eastman Way recognizes the importance of Eastman people in the company's success and describes how we will do business and treat each other. Our Responsible Care pledge verbalizes our commitment to improving health, safety, and environmental performance. Finally, our Strategic Intent ties them all together and acknowledges them as the drivers for achieving the corporate vision and mission. The documents are interdependent and must be viewed collectively. To view them independently does not provide the proper context.

It has been my experience over twenty years as an employee and with experience at three different Eastman locations that most Eastman people have a genuine interest in what these documents stand for. Often I have seen individuals judge the actions of their managers
and co-workers by these documents. Occasionally I have seen individuals judge their own behaviors by them. If there is to be a high degree of organizational unity, there can be little ambiguity in what these statements mean or in how they are applied at the individual and organizational level. People all across the organization seem to want to know what they can count on in this changing environment and what are the plans for success. All four documents, in addition to a brief background on Eastman Chemical, are included in Appendix A for reference.

This work is personal. As a manager in the company, I have many times faced decisions that impact the company, other employees, customers, suppliers, publics, and myself. Did I make the right decisions? What guided me? How will I make decisions in the future? How will I determine the proper tradeoffs in the decision-making process? The answers are seldom black and white. Even with a lot of gray, I believe the foundation documents must provide clear guidance and speak loudly to every Eastman employee.

Without clarity, the potential for sub-optimization and confusion increases. Success in today’s business environment is undermined when the voices or actions of managers and employees are in disagreement or confused about the meaning of the vision, mission, strategy, or values of the organization. Ultimately, for maximum success everyone must be together on their understanding since everyday decisions affecting the future of the firm are made based on that understanding.

The Eastman vision and mission statements found in the Strategic Intent document are as follows - “to be the world’s preferred chemical company (Vision) by creating superior value for our stakeholders – customers, employees, investors, suppliers, and publics” (Mission). To be preferred, according to the American Heritage Dictionary, is to be more
highly valued than are others. The vision is to be accomplished by creating superior value for customers, employees, investors, suppliers, and publics. Value is defined as a fair return for goods and services. The notion of superior implies more than a fair return or a better return. Therefore, one could make the following interpretation: the Eastman vision is for Eastman Chemical Company to be more highly valued than other chemical companies. The mission is to achieve this position by providing a better return to our customers, employees, investors, suppliers, and publics than others provide.

This purpose of this thesis is to take a closer look at corporate visions and missions in general, ultimately with a specific focus on the Eastman statements. The questions to be asked are relatively straightforward but the answers may be hard to come by. The literature is far from unanimous on the identification of stakeholders and on the mission of business.

The thesis is divided into four parts. Part One, Chapter 1, provides a general background on vision and mission statements and answers the questions: what are they, why have them, and who are the identified stakeholders. The chapter also briefly discusses the concept of strategic intent, since the Eastman vision and mission statements and the identification of the company stakeholders are included in the document labeled Strategic Intent.

Part Two, Chapter 2, asks and seeks to answer what might be the most critical question of all: What is the mission of business (more specifically, what is the mission of business for a publicly held company)? This chapter also wrestles with the interaction of the organization’s stakeholders.

Part Three includes Chapters 3-6. As earlier mentioned the Eastman mission is to achieve its corporate vision by creating superior value for its stakeholders – customers,
employees, investors, publics, and suppliers. These chapters look at each stakeholder separately, with the primary focus on investors, employees, and customers. The goal is to determine what defines superior value from the stakeholder’s point of view. This section also looks at employees as investors since all Eastman employees hold equity in the company.

Are we employees first or investors first?

Part Four, Chapter 7, focuses specifically on the Eastman vision and mission statements. The following questions will be asked and answered based on the insights gathered in Parts One through Three. The questions will be whether or not statements such as Eastman’s are realistic or achievable in today’s business environment where quarter-to-quarter financial results are driving corporate behaviors. The fundamental question is whether or not superior value can be created simultaneously for customers, employees, investors, suppliers, and publics. If yes, then how? If not, and/or if such statements are determined to be unrealistic or too ambiguous, then how should they be reconstructed and communicated? What stakeholder tensions are created? What are the strategies for managing those tensions? What are the implications of employees as investors?

In the end, it must be clear that the opinions expressed here are my own, formed from the research, the analysis, and my own experiences and observations as an employee, a member of the Eastman community, and now as an Eastman investor. My opinions do not necessarily represent the opinions of other Eastman managers or employees, nor do I say anyone should adopt my views. What is important, however, is that one has a view and -- just as important -- understand the basis for that view. It must be clear, however, that if within the organization a wide range of views exist on the meaning of such important but basic
guidance as company vision, mission, and values statements, it will be difficult for the company to achieve its Strategic Intent.

The approach is intended to be thoughtful. I have no "axes to grind", just a strong belief that what these documents say is vitally important. I am convinced that the challenges before us require that each person grasp and internalize fully what is meant by these documents at the level of their sphere of influence such that each day everyone can maximize their contribution to the company's success.
CHAPTER 1
VISION AND MISSION STATEMENTS

"If you don't know where you are going, any road will get you there"
—Anonymous Folklore

As mentioned in the Introduction, the Eastman vision and mission statements are part of a larger Eastman document known as Strategic Intent. The phrase “strategic intent” has become well-known in the business literature. Given the prominence of this phrase it seems well to ensure that its meaning is understood before discussing in more detail vision and mission statements. Therefore, this chapter begins with a review of the strategic intent concept.

The Concept of Strategic Intent

The phrase strategic intent, developed by Hamel and Prahalad (1994), is defined in their book Competing for the Future as follows: “Strategic intent refers to the verbalization or animation of an organization’s dream.” Hamel and Prahalad further say that strategic intent is the capstone of an organization’s strategic architecture. They suggest that the strategic architecture is designed to point the way to the organization’s future, but it is an ambitious and compelling strategic intent that provides the emotional and intellectual energy for the journey. Said another way, strategic intent is the distilled essence of an organization’s
strategic architecture and therefore implies a particular view about the long-term market or competitive position that the firm hopes to build. Strategic architecture is the brain and strategic intent is the heart.

Strategic intent implies a significant stretch for the organization. Attributes of a strategic intent include:

- a sense of direction and a unique view about the future
- a sense of discovery, such that it has an emotional edge to it and employees perceive it as worthwhile
- a sense of destiny, a sense that the organization will be successful and achieve its unique goal.

For a strategic intent to succeed, each employee must understand the nature of the linkage between his or her own job and the attainment of the goal. Hamel and Prahalad also emphasize that the linkage must be personalized for every employee. The first task in personalizing strategic intent is to set clear corporate challenges that focus everyone’s attention on the next key advantage or capability to be built.

Vision and Mission Statements – What are They and Why have Them?

Many references related to vision and mission statements exist in the literature. In a generic sense, vision statements can be thought of as “what” is to be accomplished. On the other hand, mission statements can be thought of as “why” it is to be accomplished. Hacker and Brotherton (1998) say that a vision statement simply describes what the organization is striving to become. Campbell (1997) describes mission statements as an expression of a
company's purpose and ambition. Sometimes the statements may also be used to guide behavior (complementary to a statement of the company values) or as a celebratory symbol of a company's culture. The line between explicit vision and mission statements is often not clear, nor do all companies have both or either. In Appendix B, there are several examples of "official" vision/mission statements representing the organizations of some of my Sloan Fellow classmates, several from Eastman Chemical Company's competitors, and a few from other well-known companies.

Vision and mission statements (written or not) are the foundation of performance management systems. Many would argue, and I agree, that written corporate statements are important. Although they do not and should not identify the specific strategic and tactical steps for the organization to follow, they do form the starting point for that development process. They provide a sense of direction and purpose to the rest of the organization. Hacker and Brotherton (1998) therefore contend that the corporate vision and mission will only be useful and compelling when they are in the line of sight of individuals. The goal is to make the corporate vision and mission operative at the unit level while maintaining consistency of the strategic hierarchy up and down the organization.

Prahalad and Hamel (1989) suggest that the best method for achieving this consistency is to enfranchise employees to invent the means to accomplish the organization's objectives. Therefore, complementary vision and mission statements developed by the units, provide the linkage, or translation, of the corporate vision and mission statements into terms that articulate how the unit will align itself and contribute to the organization's success.

This process of stacking visions and missions, while necessary to putting the corporate vision and mission in the line of sight, is not without risk since the process can
cause blurring or dilution and result in loss of effectiveness. This can happen if the corporate vision is not clear, is misunderstood, and/or if care is not taken to ensure strong alignment in the creation and implementation process of unit statements.

In my opinion, responsibility for ensuring strong linkages must reside with company management through a process of validating that the corporate vision and mission are properly translated into appropriate unit vision and mission statements and ultimately into specific and measurable initiatives. The total quantification process then allows the organization to determine whether it is on the right track and also to evaluate the rate of progress being made toward the vision.

Baetz and Bart (1996) present a lengthy list of reasons why companies create mission statements. Their study of over 100 of the top 500 industrial firms in Canada uncovered the following reasons among those surveyed as most important for creating mission statements.

1. To guide the strategic planning process.
2. To define the organization's scope of business operations/activities.
3. To provide a common purpose/direction transcending individual and department needs.
4. To promote a sense of shared expectations among all levels of employees, thereby building a strong corporate culture (i.e., shared values).
5. To guide leadership styles.

This list confirms one of the previously reported principal rationales for having mission statements, namely, that mission statements are important for providing a common purpose and direction. This rationale, providing a sense of direction, is fundamental to the
strategic intent concept. As discussed earlier, a sense of direction is the first attribute of strategic intent, followed by the senses of discovery and destiny.

Baetz and Bart cite other research by David (1989) and Klemm, Sanderson, and Luffman (1991) regarding organizations that do not have formal mission statements. The main reason reported for not having a mission statement was that it could create controversy in terms of answering the question: “What is our business?” This is a puzzling finding, in my opinion, as one can only assume that these types of organizations are so strongly averse to conflict that answering the question is so divisive as to destroy or significantly disrupt the social structure of the organization. Several other reasons cited for not having mission statements include:

1. Tactical and operational matters drive out long-term strategic considerations.
2. Practical skepticism about the value of mission statements.
3. Difficulty addressing the number and diversity of organizational stakeholders.
4. A tendency for some stakeholders to become comfortable with the firm’s current position and therefore they don’t see the need.

As is evident, the development and use of vision and mission statements varies widely.

In *Built To Last*, Collins and Porras (1994) focus on understanding the success of “visionary companies”. They define *visionary companies* as premiere institutions in their industries. The companies are widely admired by industry participants and have a long track record of making a significant impact on the world around them.

In their work to determine what makes a company visionary, they conclude that several common myths underpinning successful companies are false. One myth is particularly pertinent here as it deals directly with vision statements. The myth, they say, is
that companies become visionary primarily through vision statements. They conclude that visionary companies did not attain their stature because they made visionary pronouncements -- even though they often did. They also conclude that visionary companies did not rise to greatness because they wrote one of the vision, values, purpose, mission, or aspiration statements that have become popular in management today, although many also did write them. They do contend, however, that creating a statement can be a helpful step in building a visionary company, but it is only one of thousands of steps in a never-ending process of expressing the fundamental characteristics identified across visionary companies.

I have concluded that the importance of vision and mission statements is not based on whether or not they are created or adorn the walls of corporations worldwide. Their value rests on whether or not they help produce throughout the organization what Prahalad and Hamel call *heart*. If they produce heart, then they truly become foundations. To the extent they are constructed, communicated, understood, built on, bought into, and internalized by the workforce, they can aid in the accomplishment of corporate objectives through the alignment of purpose and action. To the extent that they are not understood, are misinterpreted, not acted upon properly, or even trivialized, they can be problematic as stakeholders see company actions and employee conduct as contradictory to their stated purposes. These deficiencies can lead to deterioration of morale, lack of trust in the organization, and a loss of heart, particularly as any organization faces difficult times.

Stephen Covey (1989), in his bestseller, *The 7 Habits of Highly Effective People*, says that “… trust is the highest form of human motivation. It brings out the best in people.” In an organization, it is fair to assume, then, that lack of trust among individuals is detrimental. Lack of trust can lead to lack of motivation and loss of heart that will prevent a company or
business from achieving its vision of being the best in its marketplace. It is my contention that company management cannot allow the corporate vision and mission of the organization to be misunderstood, misinterpreted, dismissed, or trivialized. Vision and mission must be built upon and put into action.

Who are the Stakeholders in a Company’s Vision and Mission Statements?

If one starts with the premise that a company has a vision and/or mission statement, then who do these statements identify as stakeholders? Much of the current literature expounds on stakeholder theory, saying that organizations should be managed for the good of all who have a stake in the company. Identified stakeholders often include shareholders, creditors, customers, employees, suppliers, and communities or publics. Communities or publics can be thought of as the local community and its interests but is probably better interpreted as the larger community affected by the company. Then it would include governments, regulatory agencies, state, national, and maybe even global constituencies. In this section we will briefly examine the question of who companies identify as stakeholders in their vision or mission statements. The data comes from the literature and from examining the vision/mission statements of the companies referred to in Appendix B.

Baetz and Bart (1996) provide some interesting results regarding the identification and number of stakeholders mentioned in company mission statements. Their data was obtained by surveying the top 500 industrial firms in Canada. One hundred thirty five (135) companies responded to the survey.
<table>
<thead>
<tr>
<th>Number of Stakeholders Mentioned</th>
<th>Stakeholders Identified</th>
<th>Times Mentioned</th>
</tr>
</thead>
<tbody>
<tr>
<td>None – 10% (14)</td>
<td>Customer/Client</td>
<td>66/135</td>
</tr>
<tr>
<td>One – 39% (53)</td>
<td>Employees</td>
<td>41/135</td>
</tr>
<tr>
<td>Two – 15% (20)</td>
<td>Shareholder</td>
<td>34/135</td>
</tr>
<tr>
<td>Three – 24% (32)</td>
<td>Community/Society/General Public</td>
<td>16/135</td>
</tr>
<tr>
<td>Four – 6% (8)</td>
<td>Associated Business</td>
<td>9/135</td>
</tr>
<tr>
<td>Five – 3% (4)</td>
<td>Managers</td>
<td>3/135</td>
</tr>
<tr>
<td>Six – 1% (1)</td>
<td>Government</td>
<td>2/135</td>
</tr>
<tr>
<td>Stakeholders in general – 1% (1)</td>
<td>Peers</td>
<td>1/135</td>
</tr>
<tr>
<td></td>
<td>Corporate Family</td>
<td>1/135</td>
</tr>
</tbody>
</table>

The first column of data (n=135) represents the percentage of statements that included references to no stakeholders, one stakeholder, two stakeholders, and so on. The number in parentheses in the first column translates the percentage into the actual number of mission statements with references to no stakeholders and so on (the sum does not total to 135 due to rounding). The data shows that most companies (around 39%) identified only one stakeholder in their mission statement. The next highest percentage (24%) was the identification of three stakeholders. The cumulative percentage for one to three stakeholders is 78%.

Columns two and three identify the types of stakeholders included in the company mission statements. Customers were identified in 49% (66/135) of the statements and are the most referenced. Employees are mentioned in 30% of the statements. Shareholders are mentioned next most at 25%. The conclusion in this Canadian study is that the center of attention is the customer.

Collins and Porras (1994) identified 18 visionary companies that achieved significant growth in shareholder value. Barrett (1997) analyzed the mission statements of those
companies and concluded that 16 of the 18 companies had three or more objectives. The majority of their objectives (44 percent) concerned corporate well-being and 20% concerned corporate fitness. Only 6% concerned corporate survival, which according to Barrett would indicate attention to profits or shareholder value. Looking at terms such as “corporate well-being” and “corporate fitness” I am not sure I agree with his conclusion that only 6% of the statements express concern for profits and shareholder value. These objectives are not independent of financial stability. The following table shows the results of his analysis:

<table>
<thead>
<tr>
<th>Objective</th>
<th>Percent Occurrences in Mission Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Well-Being</td>
<td>44%</td>
</tr>
<tr>
<td>Corporate Fitness</td>
<td>20%</td>
</tr>
<tr>
<td>Client/Supplier Relations</td>
<td>18%</td>
</tr>
<tr>
<td>Global/Society</td>
<td>8%</td>
</tr>
<tr>
<td>Corporate Survival</td>
<td>6%</td>
</tr>
<tr>
<td>Community Relations</td>
<td>3%</td>
</tr>
</tbody>
</table>

For additional insight, I analyzed the vision and mission statements of the companies included in Appendix B. The output of my analysis is formatted identically to the output shown in the work of Baetz and Bart. The method of analysis was to examine the statements by company/organization (n=21), identify the stakeholders included, and then see if the stakeholders were identified in the context of some type of value creation language (i.e., surpassing customer expectations, providing growth opportunities for employees, etc.). If the stakeholders were identified in a value-creating context (from the stakeholder’s point of view) as opposed to just being referenced, they were counted in the following table. Stakeholders, even if referenced more than one time in the corporate vision/mission, were not double counted so the maximum number for any stakeholder is 21, which is the number of organizations examined.
<table>
<thead>
<tr>
<th>Number of Stakeholders Mentioned</th>
<th>Stakeholders Identified</th>
<th>Times Mentioned</th>
</tr>
</thead>
<tbody>
<tr>
<td>None – 5% (1)</td>
<td>Customer</td>
<td>18/21</td>
</tr>
<tr>
<td>One – 24% (5)</td>
<td>Shareholders</td>
<td>13/21</td>
</tr>
<tr>
<td>Two – 24% (5)</td>
<td>Community/Society</td>
<td>10/21</td>
</tr>
<tr>
<td>Three – 10% (2)</td>
<td>Employees</td>
<td>9/21</td>
</tr>
<tr>
<td>Four – 33% (7)</td>
<td>Stakeholders</td>
<td>2/21</td>
</tr>
<tr>
<td>Five – 5% (1)</td>
<td>Suppliers/Partners</td>
<td>1/21</td>
</tr>
</tbody>
</table>

In this data set, 24% of the organizations mentioned one stakeholder in a value-creating context and 24% mentioned two. The largest percentage of organizations (33%) mentioned four stakeholders. Just as in the Baetz and Bart table, the customer is also the most identified stakeholder, showing up in 86% of the organizations. Shareholders were second at 62% and employees at 43%.

As these results show, the content of vision and mission statements vary widely. There is no single formula for their construction. The overall message from the variation may well be that the stakeholders are interdependent. This interdependence is not surprising but at the same time it seems to me that it needs to be better understood. The question is how individuals at all levels inside an organization understand the organization’s purpose and as a result how do they make decisions each day that affect the organization. Said another way, how do employees each day reconcile this interdependency? The underlying question would seem to be: What is the mission or governing objective of a business?

The next chapter examines views on this question, and I will draw my own conclusion at the end of the chapter. This question must be answered before one can clarify the relationship among company stakeholders.
CHAPTER 2

THE MISSION OF BUSINESS

"The key to failure is trying to please everybody"
- from a fortune cookie

The vision statement speaks to what is to be accomplished or what an organization is trying to become. As part of the strategic intent, the vision statement is the verbalization of an organization’s dream. The question for this chapter is, “What is the mission of business?” or more specifically, “What should be the mission or governing objective of a publicly held firm?” The question does not focus on company mission statements per se, although the resulting answer could have an impact on the development of an organization’s mission statement. The question is being asked in an effort to clarify the relative position of the stakeholders to the business.

To evaluate the question of this chapter, I used several references. The debate centers not on the fact that a company has many important stakeholders, but rather on the relationship between the stakeholders. While I will not segment the various arguments from a geographic point of view, it is acknowledged that national and regional cultures, as well as individual beliefs, influence opinions on this subject.

As seen in the following pages, some take the view that business should be focused squarely on the shareholder’s benefit; others take the view that the company must give priority to many stakeholders. Sometimes the distinctions in the arguments are subtle. However, my suspicion is that within many organizations the stakeholder relationship is unsettled, at least culturally, and therefore affects the behavior of employees at all levels.
A company is a system, with both short- and long-term system dynamics that are affected by the decisions made or not made along the way. The stakeholders are clearly not independent, and their interests are not always the same or even compatible in the corporate context. There will always be tradeoffs but as already touched on, a company will be at its best when there is complete understanding about how those trade-off decisions are to be made. I believe this understanding begins at the corporate level with clear and unambiguous vision and mission statements which become reality only when they become part of the corporate fabric and are reinforced constantly by the actions of decision-makers at all levels.

Stakeholder Theories and Opinions

To begin, I need to more fully introduce “stakeholder theory” since it is central to the discussion. Argenti (1997) describes the theory as a belief that a company should be run for the benefit of all those who have a stake in it. He identifies five categories of stakeholders: investors, employees, customers, suppliers, and the relevant community. (Interestingly, these are the same five listed in the Eastman mission statement.) In variants of the theory known as the equity or consensus versions, all stakeholders are deemed to be of equal status.

The theory further states that managers should “hold the balance” between these various groups of people. Argenti suggests that stakeholder theory runs counter to modern capitalism. Argenti’s view of modern capitalism claims that a company should be run solely to earn returns on shareholder capital provided the company behaves in a “socially acceptable” manner toward the other stakeholders. In one philosophy, companies exist to
benefit all concerned; in another just the shareholders are important as long as the firm behaves in a “socially acceptable” manner toward the other stakeholders. On the surface, this may sound to be a subtle distinction, but is it really?

All of the views presented below agree that companies perform better when they closely engage everyone affected by their operations. This is a key point and should not be lost as the differing points of view are discussed. All views also agree that the shareholders own the company.

Even though I used Argenti to define stakeholder theory, he is opposed to stakeholder’s writ large, instead believing that companies should have a single bottom line. He bases his belief on this philosophical anchor: “The sole purpose of all human organizations (including companies) is to deliver a satisfactory benefit to a specific set of human beings”. For example, he says the purpose of a school is to educate children. It is not there for the teachers, textbook publishers, or local builders. He says hospitals are there to cure patients -- not for doctors, nurses, or pharmaceutical suppliers. He does not ignore the other stakeholders but makes an interesting distinction between them.

The rule, he says, for all human organizations is not that they should aim to benefit all stakeholders, equally or otherwise. The rule is to treat their “collateral beneficiaries” in such a way as to generate a satisfactory benefit to their “intended beneficiaries”. For the school and hospital examples used above, the analogy is clear. The intended beneficiaries are the children and patients, respectively. The collateral beneficiaries are obviously teachers, publishers, and local builders (for schools) and the doctors, nurses, and pharmaceutical suppliers (for hospitals). It follows, then, that Argenti sees shareholders as the intended beneficiary of a company, and the employees, customers, suppliers, and relevant
communities as the collateral beneficiaries. Collateral beneficiaries do receive a benefit from their participation and/or interaction in and with the organization, but not at the expense of the intended beneficiary.

Argenti contends that the differences in how a modern capitalist company and a stakeholder company behave lies in how decisions are made. If management in a modern capitalist company believes that granting some additional advantage to its stakeholders will improve the company’s value, then they will do it. If not, then no.

Argenti concludes by saying that trying to run companies for the benefit of all is an impossible dream. There are intended beneficiaries and collateral beneficiaries. In his view, companies are most effective when they are able to engage the enthusiasm of all the other collateral beneficiaries who are affected by the company’s activities. But they should never lose sight that the company’s mission is to confer advantage first to its intended beneficiary—the shareholder. Any efforts to dilute this focus are to be avoided, as he believes it is extremely easy to divert resources from the lawful beneficiaries (shareholders) to other groups that might exert power to do so. This can occur with the acceptance of multiple corporate objectives that sound good but in fact are weak or not directly related to creating value for the shareholder.

Finally, Argenti contends that stakeholder theory is a thin wedge of corporate perversion since the idea of running the company for the benefit of all concerned is highly seductive.

Andrew Campbell (1997) challenges Argenti’s arguments and strongly advocates stakeholder theory. He states that companies compete for space in an economic jungle and that to win, companies must win loyalty from important groups such as customers,
employees, suppliers, and financiers. He argues that some members of these groups must prefer doing business with this company rather than with another, i.e., without loyalty the company’s space in the jungle will gradually disappear. He argues that a focus on shareholders leads to short termism and further states that by placing all the emphasis on shareholders is to misunderstand the human dynamic of business by unbalancing a manager’s thinking. He believes it is the manager’s role to decide how the company spoils are to be divided, whereas Argenti believes the multiple objectives of stakeholder theory confuse a manager’s ability to make the division properly, particularly since the manager is a stakeholder as well. Campbell rejects Argenti’s contention of intended and collateral beneficiaries by saying that a company’s purpose should be something independent of shareholder value thinking or even stakeholder value thinking.

Collins and Porras (1994) echo this point when they say that a company’s core purpose is to guide and inspire. They believe that the mission to maximize shareholder wealth does not inspire people at all levels of the organization nor does it really provide guidance. They state that “maximizing shareholder wealth” is a standard “off the shelf” purpose for companies that have not yet identified their true core purpose. Campbell suggests that purpose comes first followed by a sorting of the implications for each stakeholder.

The late Roberto Goizueta (1997), past chairman and Chief Executive Officer of Coca-Cola, presented his views on the question being discussed in this chapter in a speech entitled the “Essence of Business”. Few would argue that Coca-Cola is a premiere company in the world with the world’s most recognizable brand. Goizueta’s speech started out with a question: “What is the mission of business in our society?” He followed with several other questions: “Why shouldn’t the mission of business be to produce something? Or why should
it not be to serve our customers? Or why not philanthropy? Why is it not to make products of the highest quality? Or why not create jobs?” He follows by stating that the Coca-Cola mission is to create value over time for the owners of the business. He further states that in our economic system, the mission of any business is to create value for its owners.

He supported his position with the following arguments. First, our economic system demands that management increase shareowner value over time. In a democratic capitalist society, people create specific institutions to help meet specific needs: governments are created to meet civic needs, philanthropies are created to meet social needs, and churches are created to meet spiritual needs. Companies, he contends, are created to meet economic needs. He recognizes that the demands on companies are growing as governments, customers, employees, and communities have increasing expectations for companies. Nevertheless, he makes it clear that companies must return to one simple but lasting truth – companies work for their shareowners. He contends that just as governments often try to expand their role beyond what was intended, companies can also forget the reason they exist -- to reward their owners with an appropriate return on their investment. He says it is wrong, even arrogant, for companies to believe they can be all things to all people.

This brings us to Goizueta’s second point. He argues that if companies do a proper job of increasing shareowner value, then they are able to contribute to society in meaningful ways. The lasting benefits that companies create in society do not come because companies do good deeds, but because they do good work – work that is focused on the mission to create value. He acknowledges that the financial future of many people and organizations that own Coca-Cola depends on the continued growth of the company. He says that the gravity of this responsibility, assuring the owners’ financial future, is a constant reminder
that companies must remain focused on the mission of business – to create value over time for the many people who own the business.

His last point is that focusing on creating value over the long term keeps executives from acting shortsightedly. He believes that many shareowners want to put their money in companies they can count on, day in and day out. He agreed that a mission that just creates value could lead to the “short-termism” Campbell talks about. “To be of unique value to your owners over the long haul,” he said, “you must also be of unique value to your customers, your partners, and your employees over the long haul.” Goizueta was strongly against a scorched earth policy of adherence to profits at all costs, but he clearly acknowledged that harsh competitive situations could call for harsh medicine.

James McTaggart, Peter Kontes, and Michael Mankins (1994) state strongly that the governing objective of publicly owned companies should be to create as much wealth as possible for the shareholders, and that this objective is superior to any other governing objective. They further state that creating wealth is much more than a fiduciary responsibility; it is a hallmark of great management and great companies. The objective of creating wealth can only be achieved through a process of creating options and making choices. Therefore, it is critical, in their view, that the basis on which these options and everyday decisions are made is clearly defined, particularly in huge decentralized organizations spread throughout the world. They argue that large, complex companies need a set of principles that are understood by all employees and that can be used to inform their judgments about which decisions and choices to make.

According to these authors, the objections to accepting value maximization as the company’s governing objective fall into three camps. They describe these groups as the
capital market skeptics, the strategic visionaries, and the balancers. I will discuss each one briefly, but only the strategic visionaries and the balancers provide views on the question of the mission of business.

The capital market skeptics take the view that prices set in the stock market do not, on average, reflect the true value of the company. This skepticism is rooted in two assumptions. First, the capital markets systematically misprice (usually translated as underprice) the company’s common stock, and second, managers make strategic investment decisions using more robust, reliable measures of wealth creation than professional investors use. However, the authors demonstrate that in countries with reasonably developed capital markets, share prices provide the most accurate and least-biased appraisal of a company’s true value over time. This finding is consistent with financial theory (Brealey and Myers, 1996) taught in my classes at the Sloan School of Management.

The strategic visionaries prefer strategic governing objectives as opposed to financial governing objectives. There is no debate from the authors that strategic management is essential to creating wealth, but they argue that the problem with strategic objectives is that they do not always have the financial performance underpinnings assumed by their supporters. This is one of the same concerns Argenti expressed regarding stakeholder theory. For example, it goes without saying that no company can create wealth for its shareholders without having satisfied and loyal customers. However, it is quite possible to achieve high levels of customer satisfaction and not be able to translate this seeming advantage into even adequate returns for the shareholders.

At issue for the strategic visionary view are these questions, using customer satisfaction as the strategic example:
1. Under what circumstances does the objective of maximizing shareholder value conflict with the objective of maximizing customer satisfaction?

2. And when a conflict arises, how should management resolve it?

Using the above two questions and substituting employee satisfaction, supplier satisfaction, and community or publics satisfaction instead of customer satisfaction forces one to squarely face the question regarding the governing mission of business.

The last group is called "balancers." As the name suggests, this group believes that the interests of various stakeholders in the company need to be balanced. The balancers are similar, if not identical, to those who hold to the stakeholder theory of governance. The authors suggest, as did Goizueta, that balancing the interests is a social or political objective based on the presumption that there are fundamental conflicts between the interests of shareholders and other stakeholders. The authors also suggest that the relationships are not inherently conflicting but when conflicts do arise, the company must find ways to compete in the marketplace without consuming shareholder value, at least not to a greater degree than its competitors. The danger companies face as they try to balance is that they will over time transfer value away from the shareholders to the other stakeholders. If this occurs and goes unchecked, the company can set itself up for major restructurings or potentially find itself out of business, as it is no longer competitive.

McTaggart, Kontes, and Mankins (1994) argue that companies that have a shareholder focus tend to manage their employment levels so well that large-scale restructurings are rare. They stay on top of their game and always know the score.
Defining the Mission of Business

What is the mission of business? My conclusion begins with the premise that companies are in business for the long term. Therefore irresponsible behaviors -- "scorched earth" as Goizueta called it -- such as slashing today to boost profits tomorrow with no regard for the following day, are not desirable or acceptable behaviors.

Still, the core question that must be answered is whether or not the firm should be run for the benefit of all the stakeholders (all as intended beneficiaries) or with a focus on the shareholder while acting responsibly toward all the other stakeholder groups. For a publicly held company, I conclude the latter but that conclusion deserves some rationale -- not to convince the reader but to convince the writer. I do not think the employees of publicly held companies can have significant differences or be neutral on this question and expect to achieve the goals of the organization. I believe that on issues such as these we not only need to know what we believe, we need to know why we believe it since those beliefs will affect the way we make decisions in the future. When we expose our thinking, we also give others an opportunity to challenge our views and reflect on their own views.

I take my stance by remembering that shareholders own the company. For many, their future may be dependent on how well the company provides a return on their investment. They have a right to expect a "fair" return on their investment. We also know by law that company officers and directors are agents of a corporation and owe a fiduciary duty to the corporation and its shareholders. They are legally obliged to act primarily for the benefit of the shareholders. However, if the shareholder is the "intended beneficiary", it cannot be over-emphasized that all stakeholders are important for company success, especially employees.
and customers. Their repeated identification in company mission statements underscores this fact, as pointed out in Chapter 1. Campbell, Collins, and Porras also remind us that companies must have a core purpose that guides and inspires. While the intended beneficiary may be the shareholder, they point out that the goal of “maximizing shareholder wealth” will not guide or inspire to levels deep within the organization. The point is well taken.

In the end, what we have is a system where company success, therefore shareholder satisfaction, is dependent on the organization’s core purpose, its strategic and operational effectiveness, including the interaction of all the stakeholders. There is a cause-effect relationship at work. Goizueta’s argument that companies do not do good work because they do good deeds, but rather that good deeds are done because the company does good work, reminds us the systems nature of the interaction. Therefore, the mindset for company managers as they consider company stakeholders should be win-win over the long term as they seek to maximize shareholder value. When win-win is not achievable due to the competitive business environment, it is the shareholder’s interest that must be protected first since the shareholder is the intended beneficiary of the firm’s operations.

The company must stay healthy if it is to add the most value to all stakeholders over the long term and sometimes this means hard choices. If the company fails, then everybody loses. By concluding that the mission of business is first to create value for the shareholder, the next logical question from the other stakeholders is “What’s in it for me?” This is a fair question in my view and one that companies that have a shareholder focus should be prepared to answer.

The next four chapters will explore the perspectives of the stakeholders identified in the Eastman mission statement and, based on the literature and some internal data,
contemplate what constitutes value from the stakeholder’s perspective. The primary focus will be on investors, customers, and employees.
CHAPTER 3

INVESTORS AS STAKEHOLDERS

"Show me the money!"
– Jerry Maguire (Tom Cruise)

The question asked in this chapter is: What are investors looking for with their investments? In the context of the Eastman mission statement, what defines creating superior value for investors?

The place to start is to recognize that the capital structure of any firm will likely include both equity and debt securities, and that the firm’s market value is based on the estimated net present value of its current and future cash flows, adjusted for timing and risk. In simple terms, the firm must split those cash flows from its assets into two streams. One stream must be relatively safe and go to the debt-holders. The other cash stream is more risky and goes to the shareholders. The debt-holders have first right to cash flows. Since the debt-holders are paid before any equity claims on the firm, they expect a lower return for the risk they are taking relative to the equity holders. The debt-holders lend money to firms based on their assessment of the risk, similar to a financial institution lending money to someone for a mortgage. They expect to be paid. Shareholders, on the other hand, have an equity claim on the firm and can only collect after all other debts of the firm have been paid. Therefore, shareholders expect a higher return for their investment since they are taking the greater risk.

Most would agree that shareholders are a key stakeholder for publicly held companies. Shareholders today include individual investors, institutional investors, and increasingly, employee investors, as companies use employee stock ownership plans
(ESOPs), stock options, and other mechanisms to increase employee ownership. The intent of this chapter is to gain an understanding of the shareholder’s perspective from two points of view - the non-employee investor and the employee investor.

**The Non-Employee Investor**

To answer the question regarding what is important to shareholders, we must first simply recall that shareholders own the company. We must also understand that shareholders choose to invest in a company, they have no duty to do so. The choice to invest is made by individual investors themselves or by institutional investors who have been given the authority to invest on the individual’s behalf. There is also no duty or obligation for investors to maintain their investment. The number of investment opportunities for investors is endless. Investors -- individuals or institutions -- are attracted to companies when they believe they can receive an acceptable return on their investment based on their tolerance for risk. Returns to investors are thought of as total returns that include both dividend payments and stock appreciation. Shareholders are made better off when the company makes decisions or performs in a way that increases the value of their stake in the firm. They are made worse off when the company makes decisions or performs in a way that reduces the value of their stake in the firm. Therefore, the shareholder wants the company to maximize the current market value of the firm. The idea of the company creating superior value for other stakeholders such as customers, employees, etc. is generally not an objective for shareholders.

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What constitutes a satisfactory return for a shareholder? The textbook answer is that value is created only when the firm can earn a return on equity over time that exceeds its cost of equity capital. Therefore, in theory, shareholders are looking for returns over time that exceed the equity cost of capital. The capital asset pricing model (Hax and Majluf (1996)) provides an estimate of the cost of equity capital from the following equation:

\[
\text{Cost of Equity Capital (Ke)} = \text{risk-free rate} + \text{risk premium}
\]

where:

risk free rate = the rate corresponding to the return on an investment that offers a sure return such as the return on government-backed Treasury bills

risk premium = the product of the volatility of the equity cash flow times the average risk premium for the capital markets, which has been estimated to be about 9%.

The volatility coefficient is called beta and is 1.01 for the chemical industry (Source: www.marketguide.com). The beta for Eastman Chemical is 0.71 (Source: www.marketguide.com). Using a risk free return of 5%, the equation estimates that investors are looking for a return of at least 14.1% for an investment in the chemical industry. Using the same equation for Eastman, the expected return on equity is 11.4%.

The focus here is not on the numbers but rather on the concept that investors are expecting a risk premium for investing in equity. The higher the beta, the riskier or more volatile the return. A beta of 1.0 indicates that the firm has the same volatility as the market. Someone investing in a chemical company would most likely tend to look at the volatility of the industry instead of an individual firm unless the firm has a compelling reason or history for that not to be the case. Any return less than the cost of equity is a value consumer and not a value generator. Returning the cost of equity capital over time is generally the shareholder’s minimum expectation.
Goizueta (1997) also highlighted another key shareholder want: they want firms to deliver sustained, long-term value. It is obvious that not all shareholders are long-term focused, but he believed most are. This implies that shareholders are looking to companies for evidence that the creation of value will be sustained. This evidence includes many features such as good governance practices, strong management, a convincing strategy, a history of growth, good prospects for growth, decisiveness on tough issues, and a record of good corporate citizenship.

Firms should also remember that it is up to the investors to determine the level of risk they are willing to take. Therefore, firms should realistically compare themselves with other equity investments of comparable risk. The goal of creating superior value implies that over time a company has a goal to return greater than its cost of equity capital to the investor and for the actual return to be in the upper level of comparable risk companies.

One final point needs to be made regarding non-employee investors. That point deals with the recognition of the institutional investor. Company stocks are increasingly being bought by institutions that represent large numbers of investors. Those institutions are in the business of investing other people’s money. This aggregation of purchasing power sometimes results in a large percentage of a stock being held by a single fund with the potential to strengthen shareholder activism (Monks, 1998). Not only do the funds own part of the company through holding large blocks of stock, but this ownership can increase their influence on corporate governance should they choose to do so. For reference, Eastman Chemical is 77.6% owned by institutions (source: www.marketguide.com as of January 16, 1999). Institutional ownership of the chemical industry sector is around 68%.
While it is impossible to categorize the desires of all non-employee investors (individual or institutional) generically, I believe it is fair to say they are primarily interested in receiving an acceptable return on their investment based on their tolerance for risk. Many are also looking for value over the long term, but will feel free to move in and out of a stock if it is not performing or if they believe they can do better elsewhere. Investors are also looking for evidence that a company can and will produce acceptable returns.

As part of this evidence, it should be obvious that shareholders expect company management to effectively deal in a timely manner with both the external and internal forces that work against wealth creation. The external forces are usually competitive or environmental forces. Internal forces may be less obvious, but also can work to destroy or transfer wealth away from shareholders. These forces were described in the earlier discussion of the negatives of stakeholder theory, and also include failure to deal with under-performing businesses that consistently perform poorly or incentive programs with generous payouts regardless of performance.

McTaggart, Kontes, and Mankins (1994) add to the list of shareholder objectives for managers the “zero tolerance rule” which states that all resources employed in value-consuming activities have to be liberated. Shareholders expect management to insist that resources making a negative contribution to value must either fix the problem very quickly or see the resources redeployed. In the final analysis, being preferred by the investor requires superior financial performance over the long term.
The Employee Investor

Employees in many companies now have a dual stakeholder relationship as employees and as shareholders. Based on a desire to more closely tie pay and benefits to the performance of the corporation and to align employee behaviors with shareholder objectives, companies have instituted variable pay and benefits programs as well as mandatory stock ownership guidelines, in some cases. The result is that employees are now becoming shareholders in their companies in increasing numbers. According to figures from the National Center for Employee Ownership (NCEO), an estimated 15 million U.S. employees own more than $500 billion in stock through ESOPS, 401(k) plans, and broad-based stock options (Employee Benefit Plan Review Journal, 7/96, pp. 51-52).

The purpose of this section is to understand the perspective of the employee investor stakeholder. Are employee investors employees first or are they shareholders first? This question focuses primarily on employees below the senior executive levels, inasmuch as senior executive compensation usually differs greatly from the majority of company employees.

As a starting point, it should be recognized that not all plans designed to align the interest of the employee with the shareholder are equity-based. Variable pay plans, where the variable portion is usually paid in cash, are used extensively in corporations. Payments to employees are based some measure of company performance. As indicated by the words variable pay, payment is not guaranteed. Therefore, variable pay plans are by nature at risk.

Wilson (1995) makes an interesting point about the difference between risk and uncertainty which bears repeating here as it gives insight into the importance of translating
corporate visions and missions into plans and actions. The difference between risk and uncertainty lies in “knowing what to do”. He says uncertainty occurs when one is not sure how to achieve or avoid a particular consequence. On the other hand, risk indicates that one knows what to do although the actions taken may not produce the desired result. Using Wilson’s definition of risk suggests that good linkages throughout the organization with the corporate vision and mission should be a prerequisite for using such variable pay systems.

In any event, variable pay does give employees a stake in the business. Wilson provides the following three reasons for instituting variable pay plans:

1. To shift compensation costs from a fixed to a variable expense,
2. To provide additional pay to employees for extra achievements,
3. To share the risks and fortunes of the enterprise.

The challenge is to design and implement variable pay systems that reinforce the proper behaviors. The rest of this section focuses on the use of employee equity ownership as a way to align employee interests with the shareholder. Equity ownership by employees creates the employee investor.

I will begin by briefly describing (using information in the public literature) how Eastman created equity ownership across all employees (Deavenport, 1995 and Verespej, 1997). This description is provided only to give meaning to the concept of employee investors. Eastman uses both cash and equity in the variable pay and benefits plans described below.

The first plan is the Eastman Performance Plan. In this plan, instituted by company management, all employees have 5% of their pay at risk. The plan emphasizes the direct stake that all employees have in the continued success of the company. It also has a side
benefit of educating the workforce regarding the concept of economic profit, which is important to understanding the concept of creating shareholder wealth. Each year the company provides every employee with an opportunity to earn back the 5% at risk and up to 25% extra. The payout is dependent on the spread, that is, the company’s return on capital less the cost of capital. At a 0% spread, the company earns back the cost of capital and each employee receives a 10% payout (based on their annual wages) with the first 5% going into an ESOP account and the next 5% being paid in cash. If the company earns greater than the cost of capital, the cash portion of the payout (variable pay) is increased. The ESOP is considered a variable benefit since the board of directors has to make a decision on the payout if the company spread were less than –5.0%. Access by employees to their ESOP funds is restricted since its purpose is to provide a long-term incentive to improve company performance. However, the dividend payments are made annually in cash to the employee shareholder.

Current equity ownership by Eastman employees is around 10% of the company. By holding company stock, employees are rewarded in the same way as other investors through dividends and stock price, with the exception of the short-term liquidity of the individual’s ESOP account.

The second equity ownership plan involves Eastman managers at the department head level and above (roughly 500 managers). This group has more pay at risk, ranging from an additional 5 to 35% of their annual cash compensation. This group also has mandatory stock ownership guidelines ranging from one-half a year’s salary for a department head up to four times for the CEO. All also have stock options available, with the quantity based on their level in the company. The stock options are intended to aid the managers in their acquisition
of company stock since the mandatory guidelines mean that a significant percentage of the manager’s net worth is tied up in the company’s stock. The options are only of value if the market price exceeds the option price.

Wilson (1995) indicates that equity-based plans could have several objectives. First, he reaffirms that the theory of equity-based plans is designed to link the self-interest of the employee participant with that of the shareholders. The expectation is that this will lead to a proper balance between short-term earnings and long-term investment in the company. He believes that few plans actually accomplish this goal unless executives have a significant portion of their net worth invested in the stock of the organization.

Second, he says that equity plans can create a sense of identity with the company. While employees have some meaningful level (meaningful is defined by the individual) of shares or options, Wilson claims that employees frequently watch the stock price and pay attention to what analysts are saying about it. My experience validates this claim. “Paying attention” can translate into actions by employees to improve the firm’s value by reducing costs, increasing revenues, and so on.

A third purpose is to increase the competitiveness of the employee’s pay package. It is true that many companies offer stock options to managers and that this represents an opportunity to increase the manager’s net worth. Companies must be competitive with their pay and benefits packages if they are to attract and retain key employees.

A fourth purpose is that equity plans for some employees are viewed as a statement that they are part of an exclusive club within the organization. Therefore, Wilson contends that this selective use of equity packages can have some benefit for those in the organization who feel this is an important part of their role or identity.
Are equity plans meaningful to the performer? Wilson says that to create meaning, performers need to see them as directly related to their performance. If the objective is to align employee interests and decision behaviors with the shareholder, the degree to which the employee behaviors change or do not change is evidence that the design of the reward system or the use of rewards is effective or not effective. We must be careful here, though, as we identify the reason for any lack of change in behavior. Peter Drucker (1986) says that equity plans must go beyond just creating an interest in the company’s stock price to truly influencing the decision-making processes and actions that create value for the shareholders and other stakeholders. This is true of any system of rewards for performance. Drucker says that the root cause for this failure to influence behavior is often the lack of line of sight between the value of the reward and the actions necessary to achieve the desired performance. Others (e.g., Carberry, 1996; Anderson, 1995; Blair, Gasaway, Kruse, 1994; and Rosen, Quarrey, 1987) suggest that stock ownership can increase performance in companies that combine stock ownership with increased worker participation in daily decisions about their jobs and when employee owners are treated as true partners in business. On the other hand, ownership alone does not guarantee a more motivated workforce.

The risks for employees involved in equity-based plans vary depending on how much of their own money they have actually expended to acquire equity and on how much of their net worth is tied up in company stock. If employees have not used their own capital, their perceived risk is limited to not realizing an expected gain. Thus, it is not the loss per se but rather not getting something they believe they are entitled to (although I’m sure some would argue this point). This type of plan, where the employees have acquired equity without “out of pocket” contributions, probably loses some of its ability to influence behavior.
Common to both non-employee investors and employee investors is the desire for good management (Schriefer, 1996). However, outside investors mainly want management to increase shareholder value. In contrast, employees first and foremost want a job and good wages. Here we see one conflict between the outside and inside investor.

Regarding the use of mandatory stock ownership for executives, Wilson cites companies such as Xerox, Kodak, Chrysler, and Honeywell that are trying this approach. The objective is to transform executives into true stakeholders by tying a significant portion of the executive’s net worth to the fortunes of the company. From the executive’s point of view, the question is: How much ownership? If too little, then the feeling of ownership may be diminished and lose its motivational leverage. If too great, then the executives may feel unfairly burdened if they feel they cannot influence the company’s performance commensurate with their level of ownership or if the ownership requirements do not allow adequate diversification of their personal portfolios.

The downside risk for executives is the same as for all investors -- that the stock price will fall. We know that the value of the stock price is not entirely within the control of the executives or employees, so in my opinion, it is important to have a sense of proportionality in the ownership guidelines. It is important to individuals that they maintain the flexibility of having a diversified portfolio in their personal investing. The goal for the company is to link reward to performance, but that should not put executives in a situation where their net worth is so at risk that they might consider leaving the company. Collins and Porras (1994) credit Drucker with pointing out that the best and most dedicated people are ultimately volunteers because they always have the opportunity to do something else with their lives. The message here is that mandatory plans have the potential to be divisive and/or to create unwanted
turnover in an organization, particularly if individuals feel unfairly put upon and they do not see a direct line of influence to a positive outcome.

Others take a contrary view to those who support mandatory stock ownership for executives. Vogl (1994) says the implicit assumption at work in such systems is that people do not care about anything but their wallets, and that there is no motivation to do a good job or to work for the long-term health of the organization beyond financial rewards. He says any other assumption runs contrary to human nature. In fact, he believes that the remedy for executives who do not function effectively and conscientiously unless their own money is on the line, is not mandatory stock ownership, but dismissal.

In the end, I believe we can say the following about employee investors:

- Even though many have become owners not of their own choosing, the feeling of ownership and the associated upside potential for reward can be a positive for the individual and the organization.

- Employee ownership allows employees to participate in the wealth process beyond the normal pay and benefits.

- Once achieving significant ownership (*significant* being determined individually), employees generally do take an interest in the stock price and become interested in the daily decisions that affect the company’s bottom line and their personal net worth.

- They become increasingly interested in what they need to do and can do to help the company be successful.

- There is some evidence (Pendleton, et al, 1995) that employee ownership can be an effective tool in moving paternalistic cultures toward more participative cultures.
• As ownership increases, employees tend to become more active and expect "good management".

• They expect to know what is going on, and their interest in the "big picture" increases, particularly in identifying what they can do to help the firm be successful.

All of these behaviors are expected as a result of employee ownership. However, ownership alone does not mean companies will perform better. The research cited earlier indicates that the use of ESOPs combined with true employee participation in the day-to-day decision processes does lead to improved corporate performance. Conversely, one could conclude that simply implementing an ESOP or pay-at-risk without employee participation just reinforces the entitlement mindset and does not result in improved corporate performance (Brenner, 1995).

I think it also clear where outside and inside investors diverge on priorities. Employee investors are employees first and their job is their first interest. The outside investor is not as concerned with preserving jobs unless it adds value. When downturns in a business are not temporary but structural, there will be employee/shareholder conflict. The shareholder will want to pursue the strategy that produces the highest value, even if that involves a permanent reduction in the workforce and/or the shutdown of facilities. From the employees' point of view, they would most likely prefer that the shareholder accept a lower return and keep people on the job. This is a real dilemma, one that plays out all too often. This is where I believe employee investors encounter the greatest conflict as owners, particularly if the employee owners are the ones to lose their jobs.
CHAPTER 4

EMPLOYEES AS STAKEHOLDERS

"Eastman people are the key to success"
- "The Eastman Way"

The above statement is taken from The Eastman Way, the company’s foundation
document that describes its values and aspirations on the human level. This document is
extremely important in the company as it speaks to all employees. The ideals included are
noble and challenging, and recognize that the company cannot achieve its objectives without
its people. I believe that to be true.

This chapter looks at employees as stakeholders. The focus is not tied to the
employee investor view. While I will examine the literature for insights, this section looks
more closely at Eastman specifically by examining past employee survey data captured
through the company employee feedback process and other survey work done by a third
party. The Eastman mission is to create superior value for all of its stakeholders, including
employees. The question is: What do employees value? To begin, let’s look at some facts
regarding many employees in the United States.

An article in the Boston Globe (11/29/98) indicates that employees are often left
wondering where they really stand in today’s business environment. The article makes
several points worth noting:

- In October 1998, U.S. companies announced plans to cut 91,500 jobs, the most in
  three years.

- In the first ten months of 1998, job cuts totaled 523,000, most of them domestic.
• The 1998 job cuts exceeded the same period for 1997 by 200,000.

• During the two years ending December 1997, 3.6 million workers were laid off from jobs they had held at least three years.

• A recent poll conducted by Shell Oil Company found that more than half of all working Americans have been downsized, or have worked for a company that has merged or been bought out, or have moved to a different city because of their job.

The *Globe* article also said, not surprisingly, that employee commitment to employers is declining, and it cites a survey by Aon Consulting in which 55% of U.S. workers said they would switch jobs for a pay increase of 20% or less. Workers are apparently concluding that there is little long-term job security and that the ability to retain one’s current job is beyond one’s control. Workers are also concluding that the best defense to a layoff announcement is to have another job lined up.

The same article makes the following points regarding market control of organizations:

• Because of pressures from Wall Street, companies are paying unprecedented attention to their bottom lines. Companies are not being asked to produce good profits, but extraordinary profits.

• Downsizing has become a strategy that is used in good times and bad.

It is no surprise, then, that instead of employees seeing themselves as the firm’s most important asset, they often see themselves as the firm’s most expendable asset. Even if their jobs are not in danger, they are certainly being asked to learn new skills and use them to help the company compete more effectively. The workplace is not the same as it used to be and will likely never return to the “good old days”.

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As noted in *The Eastman Way*, the company says that it will give high priority to stable employment. Fortunately, over the years the company has been able to meet this objective, as the number of involuntary layoffs has been less than 1000 people since 1950 (internal Eastman sources). However, this does not mean that job security is not an issue for Eastman people; they know what other companies have done and they also know that, as a public company, there is accountability to the shareholders for producing an acceptable return on their investment.

**Literature Findings**

Here it is useful to briefly review the well-known work of Maslow regarding the hierarchy of human needs. Hitt (1988) describes Maslow’s work and translates it into useful actions to help people meet their workplace needs. Maslow postulated that there are basic needs common to all humankind, and that the needs can be grouped into five categories:

1. **Physiological Needs** – oxygen, water, food, rest, etc.
3. **Belonging Needs** – affectionate relations with other people; a place in one’s group or family.
5. **Self Actualization** – self-fulfillment and becoming all that one is capable of becoming.
Maslow said that the needs are related to each other hierarchically. He found that when individuals are not moving toward self-actualization, they are likely to be characterized by boredom, tension, anxiety, low frustration tolerance, cynicism, and low job satisfaction. If that is true, the message is clear that organizations, in order to create value for the employee, should endeavor to understand the needs of the employees and then work to create the environment that will help them move up the hierarchy.

Hitt makes several suggestions regarding how to fulfill these human needs in the workplace that also provide insight into creating value for the employee. I am sure his list is not complete, but one can see themes emerge regarding the importance of practicing company values and in particular how one wants to feel he/she is contributing to the success of the company. In my opinion, this reinforces the idea that corporate vision and mission statements and corporate values only become meaningful to employees when they are appropriately translated, are in the individual’s “line of sight”, and when they then affect behaviors. People want to know what they can do to help, they want to be treated properly, they want the company to be interested in their development, and they want to be recognized for their efforts. Hitt’s suggestions for meeting workplace needs are given below.

1. Meeting physiological needs;
   A. Provide good physical surroundings
   B. Eliminate safety hazards
   C. Prevent excessive stress
   D. Make certain that all people are able to take their vacations
   E. Promote good health.

2. Meeting safety needs
   A. Achieve a good match between job demands and staff capabilities
   B. Let people know what is expected of them
   C. Provide candid and timely feedback on performance
   D. Establish a rational compensation program
   E. Provide job security based on performance
3. Meeting belongingness needs
   A. Involve people in goal setting and planning
   B. Involve people in team problem solving
   C. Involve people in team decision making
   D. Involve people in reviewing the unit’s performance
   E. Involve people in team development activities.

4. Meeting self-esteem needs
   A. Treat each person with dignity and respect
   B. Show each person his or her work contributes to worthwhile ends
   C. Promote self management on the part of each of person
   D. Ask people for their ideas and opinions
   E. Recognize individuals for good work.

5. Meeting self-actualization needs
   A. Show personal interest in the development of each person
   B. Identify the personal goals of each person
   C. Provide effective on the job training and coaching
   D. Provide opportunities for formal education and training
   E. Provide career planning assistance.

Another well-known work by Frederick Herzberg (1968) is instructive as we look at the question of what employees value. My intent is not to rehash the content of Herzberg’s article, but rather to underscore the parts that give insight into what employees value. His motivation-hygiene theory suggests that the factors involved in producing job satisfaction (and motivation) are separate and distinct from those that produce job dissatisfaction. He argues that job satisfaction and job dissatisfaction are not opposites and suggests that two different sets of individual needs are involved.

One set of needs common to all life is based on avoidance of pain from the environment, plus all the learned drives which become conditioned to the basic biological needs. The other set of needs is unique to humans: the ability to achieve, and through achievement, to experience psychological growth. In a work environment, Herzberg says the stimulus for growth needs is job content. The growth or motivating factors intrinsic to the job
are achievement, recognition for achievement, the work itself, responsibility, and growth or advancement. The dissatisfaction-avoidance factors (hygiene factors) are extrinsic to the job and include company policy and administration, supervision, interpersonal relationships, working conditions, salary, status, and security.

Herzberg believes that the motivating factors are the primary cause of satisfaction and the hygiene factors are the primary cause of unhappiness on the job. To improve an employee’s work, the theory says that that work must be enriched. The path to enrichment is through the motivating factors. The hygiene factors, while adding little to job satisfaction can, however, create significant dissatisfaction if not managed properly. Job enrichment is a continuous proposition that addresses both the motivating and hygiene factors.

Eastman Employee Discussion

(Note: All data in this section are from internal Eastman sources.)

Every two years, Eastman conducts employee surveys for the purpose of gauging employee opinions across the company. This process gives the company an opportunity to look at what employees are concerned about and gain additional insight into what employees value. In addition, third-party assessments are occasionally done to sharpen the feedback when there is a need. This section discusses the “value drivers” for Eastman employees. My goal is to communicate to the reader things that Eastman employees say represent “superior value” for them. Consistent with the discussions regarding Maslow and Herzberg, we will see that superior value is not always grounded in financial terms.
In the past, the company has held focus groups to identify employee value drivers.

Based on a 1996 assessment, the list of "value drivers" for Eastman employees can be summarized as follows:

1. Provide meaningful work – assignments that enable value-adding contribution to the company.
2. Provide sincere recognition for personal contributions
3. Improve the work environment by improving trust and support
4. Provide progressive pay and benefits
5. Provide for continued personal growth and advancement
6. Ensure a positive and winning company image

When I look at this list I conclude fairly quickly these drivers are mostly the motivating factors as described by Herzberg. The only exception is the one regarding the provision of pay and benefits. Using Hitt's list, most could also be classified up Maslow's hierarchy beyond meeting physiological and safety needs – again, except for "pay and benefits" and possibly "ensuring a positive and winning company image". The point is that Eastman employees were expressing little concern in focus groups about meeting their basic physiological and safety needs in this 1996 data. Instead they were focused, for the most part, on the higher rungs of Maslow's ladder. Drivers were focused largely on job enrichment and personal improvement for the benefit of the company and the individual.

In contrast to the list of value drivers in the 1996 data, the most recent survey data of 1997 shows some new concerns coming to the surface. While the data shows that Eastman employees rate Eastman higher than the national norm best of the benchmarked companies as a place to work, it also pinpointed some negative trends compared to a 1995 survey. Feelings
of job security, while still high, are declining. Job security is one of the hygiene factors and one of the safety needs employees feel. To the extent excessive stress is created, this issue would fall to rung one of Maslow’s ladder. Concerns in this area work against meeting the higher-order needs and the goal of job enrichment.

Negative trends also indicated that employees feel they do not have enough information to do their jobs in the most value-creating way. This is also a hygiene factor and a safety need. Another trend is that employees are becoming more concerned that the company is not changing fast enough to compete effectively. This again is a hygiene factor and impacts the basic need for security and stability people expect.

All of these concerns are on the lower rungs of Maslow’s hierarchy and therefore signal that employees’ interests may be shifting, at least in the short term. I do not think this means that the value drivers in the 1996 survey are now unimportant. The message is that these hygiene factors must be addressed in some fashion if employee focus is to return to the higher-order value drivers. Failure to address these concerns may lead to lower morale, increasing distrust, and greater difficulty achieving the company’s objectives, including providing superior value for the employee stakeholder. It bears repeating that the favorable ratings on all of these factors were still comparatively high.

In the 1997 survey data, employees also indicated they had a “good understanding” of the Eastman vision, mission, the company’s major improvement opportunities, the Quality Policy, The Eastman Way, and Responsible Care. However, data from a recent 1998 third-party survey strongly indicate that people do not feel they have a clear “line of sight” regarding how to link their team and/or themselves effectively to the company’s vision and mission.
How could this view apparently change so quickly? The company vision and mission have not changed over this time period. Several explanations are plausible. One reason may be related to the theory of employee investors. Employees have increasingly become owners of company stock. When employees become investors, they tend to become more interested in what they can do to help the company succeed. This interest may accelerate when the company stock is not performing well, as has been the case with Eastman stock over the last few years. For employees to “know what to do” to help the company succeed implies that a clear line of sight must be established from the company vision and mission throughout the organization. This means that the vision and mission must be translated and personalized such that teams and individuals operate effectively in their spheres of influence and are effectively linked to the objectives of the corporation. Managers up and down the line must ensure that this happens. If not, it seems reasonable to expect that employee investors will try to act as catalysts to make it happen.

A second reason for the present concerns by employees may be the belief that employees feel less in control of their futures than before. We see evidence of this from trends in the survey data, as some of the hygiene factors are increasing in importance. Based on the *Boston Globe* article discussed earlier, for example, it would not be surprising if this were the major factor, particularly as the business climate in the chemical industry has been difficult as of late.

As I consider the work of Maslow and Herzberg, and the results of the Eastman surveys, several conclusions and observations emerge:

- The 1996 value drivers identified by the Eastman focus groups are strongly aligned to the motivating factors described by Herzberg. While clearly employees want and expect
good pay and benefits, the majority of the list is factors intrinsic to the job. The key to creating superior value for employees is likely dependent on successfully addressing these factors.

- The negative factors are more strongly associated with Herzberg’s list of hygiene factors (i.e., factors extrinsic to the job) and, if left unaddressed, will undermine the organization’s ability to focus on the value drivers.

- The findings of the recent surveys suggest:

  A. Increased employee ownership is likely having at least one of the expected impacts. That is, employees are more in tune with the company’s “big picture” and want and expect to know what they can do to help the company be successful.

  B. The proactive desire by employees to know more, and to know what they can do to help the company be successful, indicates the company is likely in transition from a paternalistic culture (a workforce largely dependent on being told what to do) to one of more independent employee owners.

  C. Managers at Eastman must recognize that this cultural transition is occurring and must act accordingly. The data tells me that we are not doing the best job of putting the corporate vision and mission in the line of sight of employees, and this must be understood and corrected.

  It is clear that in a changing environment, information and communications are critical. As Wilson noted, it is important for employees to be able to separate risk from uncertainty. That enables them to know what needs to be done for success even if the outcome is not guaranteed. I contend that knowing what needs to be done, even if the
outcome is not guaranteed, is far more tolerable than being unsure or tentative about what
needs to be done, particularly when there are concerns about the future.
CHAPTER 5

CUSTOMERS AS STAKEHOLDERS

"With respect to the definition of business purpose and business mission, there is only one such focus, one starting point. It is the customer. The customer defines the business. The final question needed to come to grips with business purpose and business mission is: What is value to the customer?"

--Peter Drucker

As we saw in Chapter 1, customers are the most mentioned stakeholder in the corporate vision and mission statements that were examined. Fundamentally, without customers for a company’s products there is no business. While I have already concluded that creating value for the shareholder is the foremost governing objective of business, it has been said, and I agree, that value creation begins with the customer (Bachman, et al, 1997). This idea is reinforced in the Eastman Quality Policy which states that first step in the Quality Management Process is to focus on customers. The Company Strategic Intent also reinforces this when it states that the company will focus on exceeding customer expectations.

The building block of customer value is the value the customer receives from a purchase compared to the purchase price. If the value received from Company A is greater than that received from Company B, then Company A is advantaged with the customer. If the customer receives less value from Company A than from Company B, then Company A is disadvantaged. From the shareholder’s point of view, this value advantage should be created by manufacturing, delivering goods, or providing services to customers at prices that yield
returns above their cost of capital. It is true that no company can create wealth for its shareholders without having satisfied and loyal customers.

This chapter looks at what causes a customer to say that a company is a preferred supplier. A July 1998 study from the Corporate Strategy Board entitled “Measuring and Communicating Value to Customers” gives insight into the meaning of value from the customer’s point of view. The study found that pricing -- once the distinguishing feature among competitors with similar product offerings -- has been replaced by value as the most important focus of customer concern. While it might be fairly easy to identify what creates value for shareholders, the perception of value for products and services is more complicated. For each product or service, customers choose certain value benefits or attributes, that in their minds, constitute the total value received from that product or service. Customers then compare how important these benefits are relative to the price required to receive them and then decide whether or not to purchase. The Board’s report says, “The real essence of value evolves around the tradeoff between the benefits a customer receives from a product and the price he or she pays for it”. There is a clear element of personalization for each customer in his or her value equation.

The report reached several conclusions based on telephone interviews with sales and marketing representatives and a literature review. One of the major conclusions is: “Value has become the most important element a company can provide; therefore, companies must understand which product or service attributes their customers value and incorporate them into their value proposition”.

To understand what the customer values, companies must have feedback. Common sources of feedback include customer call reports, customer surveys, customer complaints,
and loss of business. The following customer survey data from Eastman is intended to
demonstrate the results of such a feedback process. In general terms, what customers value
can be covered in two broad categories – price and quality. Quality can be further divided
into product, service, business practices, the customer relationship, and commitment as a
supplier. These dimensions can be further divided as follows:

<table>
<thead>
<tr>
<th>QUALITY</th>
<th>Product</th>
<th>Service</th>
<th>Business Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product</td>
<td>Product Performance</td>
<td>Order Entry</td>
<td>Paperwork</td>
</tr>
<tr>
<td></td>
<td>Product Mix</td>
<td>Delivery</td>
<td>Commitment to TQM</td>
</tr>
<tr>
<td></td>
<td>Packaging</td>
<td>Technical Service</td>
<td>Responsiveness</td>
</tr>
<tr>
<td></td>
<td>New Products</td>
<td>Sharing Information</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Product Availability</td>
<td>New Ideas</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Product Stewardship</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Relationship</th>
<th>Supplier Commitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrity</td>
<td>Industry Commitment</td>
</tr>
<tr>
<td>Dependability</td>
<td>Regional Commitment</td>
</tr>
<tr>
<td>Supplier Contact</td>
<td>Customer Commitment</td>
</tr>
<tr>
<td>Problem Solving</td>
<td></td>
</tr>
</tbody>
</table>

Data collected in 1995-96 from nearly 400 surveys associated with two of our
business organizations ranked the quality factors in terms of importance. The following table
shows the results. Again, these results are absent of price as a factor since a competitive price
is necessary just to play the game. These are the factors, if one outperforms the competition
and maintains a competitive price, that cause customers to prefer doing business with
Eastman (at least for the two business organizations surveyed).
<table>
<thead>
<tr>
<th>Factor</th>
<th>Category</th>
<th>Ranking (BO #1)</th>
<th>Ranking (BO #2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product Performance</td>
<td>Product</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Product Mix</td>
<td>Product</td>
<td>18</td>
<td>8</td>
</tr>
<tr>
<td>Packaging</td>
<td>Product</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>New Products</td>
<td>Product</td>
<td>16</td>
<td>19</td>
</tr>
<tr>
<td>Product Availability</td>
<td>Product</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Product Stewardship</td>
<td>Product</td>
<td>20</td>
<td>18</td>
</tr>
<tr>
<td>Order Entry</td>
<td>Service</td>
<td>15</td>
<td>11</td>
</tr>
<tr>
<td>Delivery</td>
<td>Service</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Technical Service</td>
<td>Service</td>
<td>4</td>
<td>15</td>
</tr>
<tr>
<td>Sharing Information</td>
<td>Service</td>
<td>17</td>
<td>13</td>
</tr>
<tr>
<td>New Ideas</td>
<td>Service</td>
<td>14</td>
<td>15</td>
</tr>
<tr>
<td>Paperwork</td>
<td>Business Practices</td>
<td>19</td>
<td>20</td>
</tr>
<tr>
<td>Commitment to TQM</td>
<td>Business Practices</td>
<td>11</td>
<td>15</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>Business Practices</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
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<td>Relationship</td>
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<td>2</td>
</tr>
<tr>
<td>Dependability</td>
<td>Relationship</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Supplier Contact</td>
<td>Relationship</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Problem Solving</td>
<td>Relationship</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Industry Commitment</td>
<td>Supplier Comm.</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Regional Commitment</td>
<td>Supplier Comm.</td>
<td>12</td>
<td>13</td>
</tr>
<tr>
<td>Customer Commitment</td>
<td>Supplier Comm.</td>
<td>10</td>
<td>8</td>
</tr>
</tbody>
</table>

Note: For clarification, where a rating is duplicated within a Business Organization means those factors were weighted the same.

From these data, several interesting observations can be made. One is that different businesses may have customer bases that value different things. For example, Business Organization #1 customers put a relatively low value on product mix (18) whereas Business Organization #2 had a higher rating (8). Probably the most interesting finding is that the customer base for each Business Organization rated the top three factors the same – (1) dependability of the supplier, (2) integrity of the supplier, and (3) product performance. The top two are in the relationship quality category while the third is in the product quality.
category. I believe the message is clear that Eastman customers want to do business with suppliers who not only supply good products reliably, but who are also dependable and trustworthy. The quality of the relationship matters. It is also clear that customers want their suppliers to help them be successful by providing technical service and problem-solving help. In the end, however, the specific value drivers for a given customer can only be uncovered and understood if there are good processes for ongoing communication with the customer.

In summary, to provide superior value to the customer a company must understand the customer’s needs and deliver on those needs better than the competition. Being proactive in collecting the voice of customer, followed up with analysis and action, is essential. This is an ongoing process. The goal for a company in providing superior value for its customers is to increase its competitive advantage, increase customer loyalty, and to improve the business results of the firm. Value creation begins with the customer.
The remaining stakeholders who comprise part of the Eastman mission statement are suppliers and the publics. This chapter will address value creation from the perspective of the supplier and the publics stakeholder.

**Suppliers as Stakeholders**

Suppliers are certainly key to a company’s success. However, in the context of corporate visions and missions, should creating superior value for suppliers be an objective? If so, then how is it accomplished? As we saw in Chapter 1, suppliers are rarely mentioned in vision and mission statements. This would suggest that companies largely do not see their suppliers in the same context as shareholders, customers, employees, or even their publics.

McTaggart, Kontes, and Mankins (1994) say that with respect to suppliers, they know of no one who seriously advocates that the governing objective of a corporation should be to maximize the economic interests of the company’s suppliers. In the context of creating value for shareholders, they say, and I agree, that suppliers should expect to be treated fairly. This means that the company should pay its bills on time and pay market prices for supplier products. A company strategy (explicit or implicit) of treating suppliers badly and routinely
playing one supplier against another is counterproductive and will likely lead to supply
disruptions or quality problems. These events lead to loss of value in the business and should
be avoided. The opposite approach of viewing suppliers as "business partners" has the
potential to improve quality and to reduce cost, thus adding value to the firm. This approach
is clearly in the direction of Deming's (1982) philosophy of working with single suppliers.

I believe it is reasonable to take a common-sense view when deciding what creates
value for suppliers. From our earlier look at the customer relationship, I think we can safely
conclude that suppliers are interested in many of the same factors that customers note for
their suppliers. Some of those factors are listed below. Suppliers want their customers to:

- have integrity
- be dependable so the supplier knows what to expect
- pay a fair price for their products and to pay their bills on time
- provide the supplier the opportunity to share in the customer’s success/growth
- be interested in the supplier’s success in the short and long term
- maintain open communication channels between themselves and their customers
  and for customers to work with them on issues and improvements in the product
  and relationship.

I believe we can add to this list another desire by many suppliers: They want their
customers to be innovative such that they are challenged to improve and as a result do not
fall behind their own competitors in their business environment.

In the end, the message is that suppliers are important to the company’s success. They
should be treated properly and should expect the company to work toward “win-win” in the
customer-supplier relationship. The company should expect suppliers to do the same.
However, the supplier must expect to operate in a competitive environment just as the company does.

**Publics as Stakeholders**

At Eastman, the term “publics” includes stakeholders in whatever communities Eastman operates. In the broadest sense, then, this definition extends beyond the local community and includes state, regional, national, and international entities.

Obviously employees are part of the local community. Therefore, they and their families are affected by the company both as employees and as public stakeholders. McTaggart, Kontes, and Mankins (1994) note that the value-creating proposition for shareholders regarding company investments in the community includes enhancing the company image, improving the quality of life for employees, and making recruitment and retention of talented people easier than it might be otherwise. Creating value for publics is not necessarily in conflict with creating value for shareholders, but as with the other stakeholders, it is possible to go too far or not far enough in creating value for the public stakeholder.

One of the Eastman goals is for the communities in which the company operates to support company operations. It is a goal that public policy and public officials are also supportive. For this goal to be realized, it is understood that the company must be an exemplary citizen. First and foremost, this includes having safe operations and meeting the obligations of protecting health, safety, and the environment. Because Eastman is in the chemical business, this requirement is fundamental to creating and sustaining trust. But
being an exemplary citizen goes beyond this priority objective. Companies must also have high integrity. Company policy is to obey all the laws and to meet or exceed all regulatory requirements. The goal is to be supportive of the community in many ways through the sharing of company resources including people, facilities and money.

Just as with customers, processes are needed to determine value drivers for publics. Eastman conducts annual community surveys at all locations and uses the data to assess how well it is fulfilling the public’s trust and desires. These surveys are not the only means of feedback, but they are important. The annual surveys enables the company to analyze trends and consider opportunities for improvement based on community feedback.

As an example of a feedback process, I will use the most recent community survey data from Eastman’s Kingsport site, its largest, and also the location of our corporate headquarters. The following table is based on responses to certain queries, as opposed to asking the publics directly what is important to them. However, one can argue the fact that the company asks for feedback on these items because the communities view them as important. The reader should also not assume that there is no ongoing dialogue with the public representatives. There is. Clearly, each factor listed below has many subsets that the rater has to integrate in his/her own mind when providing a response. The table, based on 361 responses from Kingsport area households (including 57 within a one and a half-mile radius of the plant site), shows these results:

<table>
<thead>
<tr>
<th>Factor</th>
<th>% Rated Favorably</th>
</tr>
</thead>
<tbody>
<tr>
<td>Role as a community citizen</td>
<td>88</td>
</tr>
<tr>
<td>Economic impact</td>
<td>94</td>
</tr>
<tr>
<td>Credibility with the community</td>
<td>88</td>
</tr>
<tr>
<td>Concern for safety</td>
<td>89</td>
</tr>
<tr>
<td>Safe handling and storage of chemicals</td>
<td>85</td>
</tr>
</tbody>
</table>
While these rating are quite high, recent surveys and focus groups pinpoint another factor important to the public stakeholder – information. Because of the economic impact our domestic operations have on the communities in which the company operates, people in those communities are very interested in what goes on at Eastman. Many local businesses and organizations are affected by the ups and downs of Eastman's business. Significant efforts are made through many media to supply this information. One must remember, however, that one of the best communication vehicles for the local communities is the employees themselves. Therefore, as previously concluded, it is absolutely critical that the workforce understand Eastman's vision, mission, and company objectives at the personal level in order to help meet the information need of the local communities.

In summary, the public stakeholder is clearly interested in several factors, including that the company remains financially healthy. Goizueta (1997) put it this way: "A healthy organization can have a positive impact on others, but a sick company is a drag on the social order of things". The public stakeholder expects a company to be a good corporate citizen. This involves first "doing no harm" to the health, safety and environment. Being preferred goes beyond the role of "doing no harm" to being actively involved in the community in appropriate ways. From the company's point of view the purpose should be to ensure support of company operations, with the ultimate objective of increasing value for the shareholder. Ensuring support from the publics stakeholder means their voices are heard and listened to.
CHAPTER 7
CONCLUSION

"The three most important things that you need to measure in a business are
customer satisfaction, employee satisfaction, and cash flow. If you are growing
customer satisfaction, your global market share is sure to grow. Employee
satisfaction gets you productivity, quality, pride, and creativity. Cash flow is the
pulse, the vital sign of life in a company."

—Jack Welch

The Eastman vision statement is “to be the world’s preferred chemical company”.
The Eastman mission is “to create superior value for customers, employees, investors,
suppliers, and publics”. I began this thesis by asking several questions about the Eastman
vision and mission statements. Those questions included:

1. Are statements such as the Eastman vision and mission statements realistic or achievable
   in today’s business environment where quarter-to-quarter financial results drive corporate
   behaviors?

2. Can superior value be created simultaneously for customers, employees, investors,
   suppliers, and publics? If so, then how?

3. If one concludes that statements such as the Eastman vision and/or mission statement are
   unrealistic or too ambiguous, how should they be reconstructed or communicated?

4. What stakeholder tensions are created?

5. What are the strategies for managing those tensions?

6. What are the implications of employees as investors?
As I conclude this work, I begin by referring back to a statement I made in the Introduction, as it has turned out to be prophetic. There I said, referring to corporate visions, missions, stakeholders, and the purpose of this work, that the questions to be asked are relatively straightforward but the answers may be hard to come by. To some degree, I find this to be true. The range of views found in the literature has been widespread and I have felt my own opinions on issues vacillate at times as I progressed through this work. I am sure I will continue to ponder many of these issues in years to come as I come face to face with them.

However, the difficulty in finding “clean” answers does not make the questions go away. Nor can companies avoid addressing the needs and wants of stakeholders in the course of doing business. How does the company use a vision, mission, its values, and its team of employees to create superior value over the long term for the owners of the company in such a way that the other stakeholders (customers, employees, suppliers, and publics) also receive superior value? I find no pat answers. But, I have reached some personal conclusions and found several principles that to me are helpful. The remainder of the thesis shares these thoughts with the reader.

Thoughts on Vision and Mission

Are statements such as the Eastman vision and mission realistic or achievable? I believe most would agree that such ambitious aspirations are difficult to achieve. However, one of the first conclusions I have reached is that it is impossible to answer this question in a
stand-alone context. This is not surprising, as we all know that exhortations alone do not accomplish much. Chapter 1 had much to say about this. To judge this question we must put the vision and mission of an organization in perspective as part of a larger system. The following two references are helpful in this regard and are consistent with what has been said in previous chapters.

Mark Lipton (1997) suggests the following model for defining the relationship between vision and mission.

\[ \text{Vision} = \text{Mission} + \text{Strategy} + \text{Culture} \]

He defines the purpose of vision, mission, strategy, and culture as follows:

1. **Vision** serves as a roadmap as companies move through accelerated change, and it speeds cultural change by connecting people to the purpose of the organization, providing focus, direction, and a context for decision making.

2. **Mission** addresses why an organization exists, appeals to the broadest stakeholder constituency possible, rises above the interests of any single group, and requires little or no explanation.

3. **Strategy** explains principles that make the mission possible, defines a company’s distinctive competence or competitive advantage, and converts the vision/mission into action, policy, and job-related behavioral guidelines.

4. **Culture** strengthens the mission or vision by contributing to the unique expression of the company’s future aspiration while supporting the purpose and strategy when employees know what is expected of them, aligning actions with mission and vision.
The inference is that the mission (why the organization exists), strategy (conversion of the vision/mission into action), and culture (aligning and gaining support of employees) support the accomplishment of the vision (the destination).

McTaggart, Kontes, and Mankins (1994) suggest this simple model for creating shareholder value.

\[ \text{Strategic and Operational Effectiveness} = \text{Financial Performance} = \text{Shareholder Value} \]

By adding the McTaggart, Kontes, and Mankins model to the Lipton model, a model that connects vision and mission to shareholder value is created. The resulting model is shown below.
Vision and mission are the starting points on which to build. Obviously, putting the model into practice is the challenge. “Culture” has been placed on the side of the model to show that it has a broad impact at all levels on the organization’s performance and ability to adapt to change. The influence of culture, and even the political elements of the organization, cannot be discounted as the firm focuses on producing shareholder value.

A report from *The Corporate Strategy Board* (April 1998) entitled “Corporate Value Statements” cites as the three most common criticisms of corporate vision and mission statements the following:

1. They are disconnected from the true capabilities of the corporation.
2. They are commonly generic (i.e., “We want to be the leading company in our industry”).
3. They are often vapid (i.e., “We love our customers, we love our employees, we love our shareholders”).

Therefore, critics might say that the Eastman vision and mission statements – “To be the world’s preferred chemical company and to create value for customers, employees, investors, suppliers, and publics” are commonly generic and vapid, and therefore lacking due to their ambiguous nature. The vision statement is clearly not unique; a quick scan of the chemical companies listed in Appendix B shows similar language.

However, the question still remains: Are the Eastman vision and mission statements realistic or achievable? In theory, I believe they are both achievable, although quite difficult. But, to be practical, my answer is “it depends” — The critical contingencies are:
• It depends on effectively making and sustaining the linkages shown in the previous model.

• It depends on a "proper" interpretation and organizational understanding of what "preferred" and creating "superior value" means and by understanding that value for all stakeholders is not measured simply in financial terms.

• It depends on whether or not the vision and mission give birth and life to a supportive and effective strategy process, followed by ongoing implementation, and most importantly, sustained positive results for the primary stakeholder – the owners of the company.

• It depends on effectively dealing with and integrating the strategic, cultural, and political elements of the organization.

• It depends on whether or not the units inside the company are able to effectively link into the vision in a way that supports it.

• It depends on satisfying customers better than the competition and on a strong commitment from employees at all levels regarding the vision of the firm.

• It depends on effectively dealing with competitive threats and environmental factors that continually attack the organization’s competitive advantages.

Can Eastman Chemical be the world’s preferred chemical company? I believe the answer is YES, but only if the company, at all levels, broadly understands what it takes to accomplish this vision and even then only if it is willing and able to make it happen. The question is whether the company can "play the game" better than the competition. Core values, culture, strategy, strategic effectiveness, operational effectiveness, and the economic and competitive business environment are all factors to be dealt with. The recent employee
survey data suggests that some inside the company are not sure of what to do to help the company succeed. In my view, this major red flag must be dealt with before it becomes a larger problem if the vision of being the “world’s preferred chemical company” is to come true.

In the final analysis -- independent of the criticisms about the ambiguity or vagueness of Eastman-type statements -- I contend that the critical test is whether or not the vision and mission are able to provide a clear context for all strategic and tactical decisions. Can these “generic and vapid” statements be translated effectively into strategy and operation? If the answer is no, they need to be changed or better defined. If yes, the message is do it and keep doing it.

In either case, I believe it is management’s responsibility to ensure that the linkage with vision, mission, and strategy occurs and is sustained throughout all levels in the company. I do not believe this linking can be taken for granted. Processes must be in place to continually ensure strong linkages and effective implementation as opposed to weak or no linkage and poor implementation. Total Quality Management (TQM) has the potential to aid in this process, but even TQM, in my experience can fail to ensure the linkages are strong if not monitored. I have seen more than one organization focus on the “trivial many” instead of the “vital few”. Collins and Porras (1994) note that creating alignment is a key in creating visionary companies. This implies a never-ending process of identifying and correcting misalignments and dealing with breakdowns in the process of linking the vision, mission, and strategy to the front lines.

Can Eastman create superior value for customers, employees, investors, suppliers, and publics? As I have pondered this question, I conclude that it can be done. However, I
also conclude that it is a difficult, fragile, but powerful objective. It is critical to emphasize that the context of the mission, in my view, is the goal of win-win for all stakeholders, but it is not the view of the "balancer" as discussed in Chapter 2. One of the dangers I see in the Eastman mission statement is that at face value it can easily be interpreted by many in a "balancer" context. To some, this may seem a subtle distinction but I conclude that it is this subtleness that makes it so dangerous. All of the stakeholders are important, but I have been clear that the governing objective, in my opinion, is to create value for the owners of the company. I have also been clear that value creation begins with the customer. Customers may be the beginning of value creation, but it is the team of committed employees who consummate the value creation process by producing products and providing service at costs that allow returns above the cost of capital.

The issue is how to create superior value for the customer, employees, suppliers, and publics without transferring value from the shareholder. Admittedly, it is a difficult and fragile proposition. The key questions to be answered regarding stakeholder relationships should be straightforward. First, under what circumstances does the objective of maximizing shareholder value conflict with the objective of maximizing value to any other stakeholder? The second question is how should those conflicts be resolved when they arise? Third, and perhaps most important is, how do employees inside the organization day in and day out reconcile potential conflicts?

For reasons of simplification and clarity, I focus the stakeholder parts of this discussion on the shareholder, customer, and employee stakeholders. It is clear that suppliers are important to the company's success and deserve to be treated fairly as discussed in Chapter 6, but I accept the argument by McTaggart, Kontes, and Mankins (1994) that
creating superior value for suppliers is not a governing objective of business. Similarly, the absence of publics in the conclusion should also not be interpreted as a sign that satisfying that stakeholder is unimportant. In the chemical business, the public stakeholder is extremely important. The concepts discussed in the following sections, although not explicitly directed toward suppliers or publics, have application to both the supplier and publics stakeholder.

**Thoughts on Customers**

Because it is true that value creation begins with the customer, some may argue that customers should take the preeminent spot as the company’s prime stakeholder. Such logic says that the purpose of a business is to create and keep customers. The thought is usually followed with the statement “If we do what’s right for the customer then value creation will take care of itself”. We know this view is not completely accurate because we know that a company can have highly satisfied customers and still not create wealth for its shareholders. The notion that customer satisfaction should be maximized with little regard to the cost is a highly seductive argument, according to Argenti (1997). The same point can be made for the other stakeholders as well. However, this does not mean that all stakeholder interactions and decisions are to be measured in a short-term context. In fact the opposite is often true.

Wernerfelt (1998) says, and I agree, that customers need to be viewed in a long-term context. This is important because it helps guard against making short-term decisions that maximize value today but not value in the long run. He suggests that firm’s use the net present value (NPV) concept to think about customer relationships in order to keep the long-term perspective in mind. NPV is a financial term that allows one to discount future payoffs
based on risk and timing. In the ideal, we know from a capital project point of view that only projects with positive net present values should be accepted. If the NPV is negative, the project will consume value. The same is true for customer relationships. It must be emphasized, however, that while the goal is to have positive-NPV customers, a negative NPV is not necessarily a sign to end the relationship. It may be that the company has lost its competitiveness and must find ways to reduce its own costs to preserve the relationship. Whatever the reason for a negative NPV, it needs to be understood and acted on. If the long-term prospects for the net present value of a relationship with a customer are negative, the company must look seriously at whether or not it can continue that relationship under the current terms as value is being transferred from the shareholder.

It is also clear that the firm must keenly listen and act on the voice of the customer, understand its position relative to competition, and find ways to enhance the relationship with its customers. If the objective is to provide superior value for the customer, the goal must also be to provide superior value to the shareholder at the same time. The following simple graph puts the concept in perspective. On one hand, the company may not go far enough with customer satisfaction to maximize shareholder value. On the other hand the company may go too far and hurt the shareholder unnecessarily by providing value well beyond the competition at the shareholder’s expense.
I believe the first question to be answered in the above relationship is this: Where on the “Customer Satisfaction” axis must the company operate to achieve its objective of being preferred? As mentioned earlier, preferred will usually be determined by the customer relative to the competition. The next question should be this: To supply that level of customer satisfaction, can the company maximize shareholder value over the long term relative to the competition? If the answer is no, the message is clear. The company needs to take steps to preserve its ability to provide shareholder value by making the necessary changes in organizational capability, etc. This cannot be done in a vacuum and must be done with full knowledge of what the customer values, the competition, and the firm’s own capabilities.

If a firm remains static, there is no doubt that competition and other environmental changes will erode a firm’s competitive advantages. To maintain those advantages, the firm has to renew its capabilities. The system is dynamic. If the firm is resolute in its commitment
of creating superior value for the customer and shareholder, the employee stakeholder is ultimately the only group that can make it happen.

**Thoughts on Employees**

Employees are the keys to success. I believe that to be true. Employees occupy a unique position in the stakeholder arrangement. By being the only internal stakeholder of the five discussed, employees are ultimately the ones to address the concerns of all the other stakeholders. Customers don’t look to shareholders to solve their problems. Shareholders don’t look to customers. Suppliers and publics don’t look to each other. All of these stakeholders look inside the corporation, directly or through a board of directors, to address their issues. Ultimately, they look to the company’s employees. Executives, managers and hourly workers are all soldiers in one way or another as the company competes in the marketplace.

In my view, one of the key principles employees at all levels in the organization need to understand is that **competition and other environmental changes naturally erode a firm’s competitive advantages if the firm remains static.** It is this reality that creates opportunity, challenge, and sometimes hardship for the employees of the firm, as the firm (the employees including management) must adapt and create new capabilities to maintain competitiveness. It is also this reality that makes it impractical for employees (at any level) to think that company management can maintain the status quo, even though the associated stress brought by change is not what most employees naturally welcome.
The firm must continually renew itself. Ideally, the firm is anticipating the external forces through strategic and competitor analysis and is detecting the “early warning” signals that might erode the firm’s competitive advantages. Hopefully, the firm is acting on these signals in a timely manner to mitigate any deterioration on the firm’s ability to create value for the shareholders before it occurs. This process is what the vision, mission, strategy, and implementation cycle are all about. Creating superior value for employees in such an environment driven by competition and other external forces, in my view, requires the firm to pay special attention to the employee stakeholder.

One of the first key principles for creating superior value for employees has to be the provision of processes and mechanisms to obtain employee feedback. What do employees value? Just like customers, you have to ask them. Without feedback from employees, it is impossible to understand their value drivers or value inhibitors. Within Eastman, survey processes are good in this regard, but I do not think they can be the only source of feedback. Since they only occur every two years, they are not a true dialogue and they also lack the personal touch. In my opinion, it is critical that managers at all levels seek to understand, know, and meet the needs of their organizations. Employees want to be heard and know that their opinions count.

I believe the list of value drivers generated in 1996 by focus groups at Eastman also remains valid. To create superior value for Eastman employees, this list (shown again below) must be kept in sight and actions continually taken to address concerns in these areas. As we have also seen, the ability to focus on these items is dependent on giving attention to
the hygiene factors previously discussed such that they do not distract from addressing the value drivers.

1. Employees want their work to be meaningful and add value to the company.
2. Employees want sincere recognition for personal contributions.
3. Employees desire a trusting and supportive environment.
4. Employees want good pay and benefits.
5. Employees want the opportunity for personal growth and advancement.
6. Employees want to be part of a positive and winning company.

Vogl (1994) echoes several of these points in his “three Cs” formula for understanding human behavior. He says that choice, content, and collaboration motivate people. Choice means that every person in the organization is able to contribute meaningfully to making decisions about what happens. Content refers to what people are being asked to do. Is the job value adding? Collaboration deals with the idea of a trusting and supportive environment that encourages teamwork.

I believe, based on other insights identified throughout this thesis, that we could modify Vogl’s formula to include a fourth C – communication. The data has concluded that Eastman employees, whether driven by employee ownership mechanisms and/or other factors related to the performance of the firm, are sending a strong signal that they want to know (communication) what they can do to help the company be successful. This signal can also be interpreted as a call from employees to help them understand and deal with the changes that they are or will be facing due to competitive and environmental forces. It is up to company management at all levels to ensure that this critical employee need for
information and communication does not go unmet. To fully meet this need will require effective communication and understanding of the organization’s vision, mission, strategic objectives and clear communication about the external forces impacting the company (Beckhard and Harris, 1987). This process of communication should be a dialogue and not a monologue.

The ultimate tension between shareholder objectives and employee objectives occurs when management is faced with eliminating jobs to preserve shareholder value. I know of no management team that could guarantee they would never take such a decision. However, from this work, I do conclude that a continual focus on shareholder objectives, which involves a continual renewing of the organization’s capabilities, can be a powerful factor in minimizing the possibility of major restructurings.

While I believe that company management must be deliberate in ensuring that all employees have their communication needs met and that employees have the skills, knowledge, and authority to do their jobs, employees should also accept the fact that the organization has to continually renew its capabilities. Accepting this reality instead of resisting it is more productive for the organization and the individual in the long term.

Hamel and Prahalad (1994) offer good advice on how to help all employees understand the need for change when they say that the use of competitor and customer benchmarks may be the most under-used motivator in management’s tool kit. Employees at all levels must continually come face to face with the competitive realities if there is ever to be the collective sense of urgency required to remain successful. Any infighting associated with debate on the need to renew the organization’s capabilities must be channeled toward the real enemy – the competition.
Final Thoughts

In many ways this thesis ends where it began. Let us look at the words of Sun Tzu once again:

"If you know the enemy and know yourself, you need not fear the result of a hundred battles. If you know yourself, but not your enemy, for every victory gained you will also suffer a defeat. If you know neither the enemy nor yourself, you will succumb in every battle."

He implies that there are battles and wars to be fought. Can business be likened to war? To answer this question only requires that you answer this question: Are there casualties? He says that to know the enemy is crucial for victory. Successful organizations do know their enemies and their potential enemies. They also have the ability to pick up on and act upon the "early warning signals" that represent threats to their core capabilities and competitiveness. This "big ear" capability I believe is critical. One could argue that it is this "big ear" capability, picking up on the early warning signals and early opportunity signals, followed by appropriate actions that gives the firm the chance to create superior value for its stakeholders and achieve the position of "preferred" in its marketplace. In the stakeholder context, this listening capability must extend beyond the competition and the environment to the firm's other external stakeholders, who are not the enemy, but who are critical to the firm's success.

Sun Tzu also says that you must know yourself. To me, this means that the corporate vision, mission, strategy, values, and culture must permeate the organization and work together such that an understanding and alignment of purpose are achieved. It is hard work and a never-ending process to make this happen. If the organization is unable to align itself and act successfully against its competition and other environmental forces, its future may be
in jeopardy. Sun Tzu’s advice is clear and public companies would do well to heed it. There is much at stake. To the victors go the spoils.
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APPENDIX A:

A. Background on Eastman Chemical Company

B. Eastman Quality Policy

C. Eastman Way

D. Responsible Care©

E. Eastman Strategic Intent
Background on Eastman Chemical Company

Eastman Chemical Company is headquartered in Kingsport, Tennessee. It is the 12th largest chemical producer in the United States based on the May 4, 1998 issue of Chemical and Engineering News. George Eastman, the founder of the Eastman Kodak Company, formed the company in 1920 as the Tennessee Eastman Corporation when he purchased a wood distillation plant located in Kingsport. Initial manufacturing produced products exclusively for Kodak. Over time the company grew significantly as it expanded its manufacturing capabilities, products, and customer base to include customers beyond its parent. It became the Eastman Chemicals Division of Eastman Kodak in 1968. On January 1, 1994, Eastman Chemical became an independent, publicly held company as the result of spin-off from Eastman Kodak. The Eastman name was retained and reflects the company’s heritage and its origin by George Eastman. Today, the company has manufacturing sites in 12 countries and sales offices in 36 countries. 1998 sales were $4.68 billion.
QUALITY POLICY

QUALITY GOAL
To be the leader in quality and value of products and services

QUALITY MANAGEMENT PROCESS
► Focus on customers.
► Establish mission, vision, and indicators of performance.
► Understand, standardize, stabilize, and maintain processes.
► Plan, do, check, act for continual improvement and innovation.

OPERATIONAL POLICY
► Achieve process stability and reliability.
► Control every process to the desired target.
► Improve process capability.

PRINCIPLES

Customer Satisfaction
Anticipate, understand, and excel at meeting customer needs.

Continual Improvement
Improve the current level of performance of processes, products, and services.

Innovation
Search for and implement creative processes, products, and services.

Process Emphasis
Focus on processes as the means to improve results.

Management Leadership
Create and maintain a shared vision, constancy of purpose, and supportive environment that includes appropriate recognition and reinforcement.

Empowerment
Create a culture where people have the knowledge, skills, authority, and desire to decide, act, and take responsibility for results of their actions and for their contribution to the success of the company.

Statistical Methods
Understand the concept of variation and apply appropriate statistical methods for continual improvement and innovation.

Employee Development
Encourage and support lifelong learning and personal growth.

Partnerships
Build long-term relationships with customers and suppliers.

Assessment
Assess performance and benchmark against world’s best.

EASTMAN

E W Deavenport, Jr
President
THE EASTMAN WAY

Eastman people are the key to success. We have recognized throughout our history the importance of treating each other fairly and with respect. We will enhance these beliefs by building upon the following values and principles:

Honesty And Integrity
We are honest with ourselves and others. Our integrity is exhibited through relationships with coworkers, customers, suppliers, and neighbors. Our goal is truth in all relationships.

Fairness
We treat each other as we expect to be treated.

Trust
We respect and rely on each other. Fair treatment, honesty in our relationships, and confidence in each other create trust.

Teamwork
We are empowered to manage our areas of responsibility. We work together to achieve common goals for business success. Full participation, cooperation, and open communication lead to superior results.

Diversity
We value different points of view. Men and women from different races, cultures, and backgrounds enrich the generation and usefulness of these different points of view. We create an environment that enables all employees to reach their full potential in pursuit of company objectives.

Employee Well-Being
We have a safe, healthy, and desirable workplace. Stability of employment is given high priority. Growth in employee skills is essential. Recognition for contributions and full utilization of employees’ capabilities promote job satisfaction.

Citizenship
We are valued by our community for our contributions as individuals and as a company. We protect public health and safety and the environment by being good stewards of our products and our processes.

Winning Attitude
Our can-do attitude and desire for excellence drive continual improvement, making us winners in everything we do.

E W. Deavenport, Jr
President

EASTMAN
RESPONSIBLE CARE®
OUR PLEDGE
TO IMPROVED HEALTH, SAFETY AND ENVIRONMENTAL PERFORMANCE

Eastman Chemical Company is committed to protecting health, safety, and the environment and to continually improving the performance of all company operations in these areas through the endorsement and implementation of RESPONSIBLE CARE®.

We will conduct business according to these RESPONSIBLE CARE principles:

- To recognize and respond to community concerns about chemicals and our operations.
- To develop and produce chemicals that can be manufactured, transported, used and disposed of safely.
- To make health, safety and environmental considerations a priority in our planning for all existing and new products and processes.
- To report promptly to officials, employees, customers and the public information on chemical-related health or environmental hazards and to recommend protective measures.
- To counsel customers on the use, transportation and disposal of chemical products.
- To operate our plants and facilities in a manner that protects the environment and the health and safety of our employees and the public.
- To extend knowledge by conducting or supporting research on the health, safety and environmental effects of our products, processes and waste materials.
- To work with others to resolve problems created by past handling and disposal of hazardous substances.
- To participate with government and others in creating responsible laws, regulations and standards to safeguard the community, workplace and environment.
- To promote the principles and practices of RESPONSIBLE CARE by sharing experiences and offering assistance to others who produce, handle, use, transport or dispose of chemicals.

E.W. Deavenport, Jr.
Chairman and Chief Executive Officer

Responsible Care® is a registered service mark of the Chemical Manufacturers Association.

EASTMAN

92
Our Strategic Intent (Vision)
TO BE THE WORLD'S PREFERRED CHEMICAL COMPANY

By
CREATING SUPERIOR VALUE (Mission)

For
CUSTOMERS  EMPLOYEES  INVESTORS  SUPPLIERS  PUBLICS

Driven By
QUALITY POLICY
THE EASTMAN WAY
RESPONSIBLE CARE®

Focusing On
EXCEEDING CUSTOMER EXPECTATIONS
While Achieving Our Major Improvement Opportunities (MIO's)

AGGRESSIVE GLOBAL GROWTH
through
Strategy Development and Implementation

PROCESS CYCLE TIME REDUCTION

RESOURCE EFFECTIVENESS
for
Advantaged Cost Structure

TO CREATE SUPERIOR VALUE IN ALL WE DO

RESPONSIBLE CARE is a registered service mark of the Chemical Manufacturers Association

EASTMAN

E W Deavenport, Jr
Chairman and CEO

EASTMAN CHEMICAL COMPANY
APPENDIX B

Examples of Corporate Vision and Mission Statements
Corporate Vision and Mission Statements

United Technologies

United Technologies is a respected, successful company and a good place to work. We want to make it better – for our customers, for our employees, for our shareholders, and for the communities in which we work.
(Source: Document from Sloan Fellow Classmate)

Coca-Cola Company

We exist to create value for our shareowners on a long-term basis by building a business that enhances the Coca-Cola Company’s trademarks. This is our ultimate commitment.
(Source: http://www.thecoca-colacompany.com/tccc/mission.html)

American Electric Power

Customer focused, employee oriented, shareholder conscious – the world’s premiere supplier of energy and related services.
(Source: Document from Sloan Fellow Classmate)

Cemex

To be the most competitive cement company in the world.
(Source: Document from Sloan Fellow Classmate)

Rolls Royce Allison

Vision: Everyone working together to be the global leader providing long term customer value and satisfaction in small and medium gas turbine systems.

Mission: Unleash the collective talents, dedication, and integrity of Allison’s employees and partners to relentlessly outperform customer expectations with world class, cost effective products and services delivering optimum stakeholder value.
(Source: Document from Sloan Fellow Classmate)
US Army Aviation and Missile Command

Vision: The Army's 21st Century leader in equipping and sustaining technologically dominant aviation and missile systems. A total force of quality soldiers and civilians dedicated to:

A flexible environment where people achieve full potential
Constantly exceeding customer expectations
Teaming with our customers, industry, and the community
Providing world-class support to our ultimate customer – the soldier.

Mission: Develop, acquire, field, and sustain aviation and missile systems – united with program managers, industry, and other partners – to guarantee the Army's technological superiority on the battlefield.
(Source: http://www.redstone.army.mil.amvision/)

Grupo Vitro

Vision: Grupo Vitro strives to consistently exceed the expectations of its customers and stakeholders, and focus on the market it serves, by using state of the art technology and by hiring and training capable individuals. Grupo Vitro's goal is to become a leader in each of its businesses, while maintaining a responsible attitude toward the environment and the communities it serves.

Mission: Grupo Vitro seeks to promote growth and increase value for shareholders by introducing new technology, new products, and developing new markets. Through its personnel, products, and suppliers, Grupo Vitro seeks to become the most cost efficient manufacturer in the market it serves, and to exert a positive influence in the communities it has a presence.
(Source: http://ns.vto.com/vto98/filos.htm)

Apache Corporation

Our mission is to build a dynamic, global exploration and production company to provide oil and natural gas for the purpose of advancing the quality of human lives. We will conduct our business from a foundation of integrity and respect for people, their cultures and traditions. We derive benefit from the Earth and take our environmental responsibility seriously. Profit from our growing business is the glue that unites Apache employees, partners, suppliers, and shareholders in the fulfillment of our long-term mission.
(Source: Document from Sloan Fellow Classmate)
Petronas

Vision: A leading oil and gas multinational of choice.

Mission: We are a business entity; petroleum is our core business; our primary responsibility is to develop and add value to this natural resource; our objective is to contribute to the well-being of the people and the nation.
(Source: Document from Sloan Fellow Classmate)

PepsiCo

PepsiCo’s overall mission is to increase the value of our shareholder’s investment. We do this through sales growth, cost controls, and wise investment of resources. We believe our commercial success depends upon offering quality and value to our consumers and customers; providing products that are safe, wholesome, economically efficient and environmentally sound; and providing a fair return to our investors while adhering to the highest standards of integrity.
(Source: http://www.pepsico.com/corp/content.shtml)

Sikorsky Aircraft

The mission of Sikorsky Aircraft Division of United Technologies is to be the world’s most successful designer, developer, fabricator, supporter, and improver of vertical take-off landing (VTOL) aircraft and related equipment for its global and military commercial customers.
(Source: Document from Sloan Fellow Classmate)

Pratt and Whitney

Pratt and Whitney is committed to being the world class provider of dependable engines, propulsion systems, parts and services that meet customer expectations.
(Source: Document from Sloan Fellow Classmate)

Lockheed-Martin

Vision: To be the world’s leading technology and systems enterprise, providing best value to our customers, growth opportunities for our employees, and superior returns to our stockholders.

Mission: To achieve mission success by attaining total customer satisfaction and meeting all commitments.
(Source: Document from Sloan Fellow Classmate)
Rohm and Haas

Rohm and Haas is a highly innovative, growing global specialty polymer and chemical company building on an ever broadening technical base.

Our customers regard us as indispensable to their success. We are the best and most consistent supplier of products and services. The general public views the company as a valued corporate citizen and as a good neighbor.

Our employees behave as owners and feel accountable for their performance and the success of the company.

Ethical behavior, teamwork, fast action, and a passion for constant improvement are the hallmarks of our culture.
(Source: http://www.rohmhaas.com/company/Vision.html)

3M Company

Our vision is to be the most innovative enterprise and the preferred supplier by:

Developing technologies and products that create a new basis of competition
Earning our customers’ loyalty by helping them grow their businesses
Expanding internationally, where we already generate more than half our sales
Improving productivity and competitiveness worldwide.

Air Products Chemical Group

Creative people working in a team environment of professionalism, opportunity, trust and fun; dedicated to achieving global leadership in differentiated and growing global businesses; striving to become the first choice for all our customers, communities, and shareholders.
(Source: http://www.airproducts.com/chemicals/chemgrou.html)

Dow Chemical Company

Vision: To be the best at applying chemistry to benefit customers, employees, shareholders, and society.

Mission: To be the most productive, best value-growth chemical company in the world.
(Source: http://www.dow.com/about/vision.html)
ICI

We intend to be the world leader in the chemical industry in creating value for customers and shareholders – and to achieve it through the following means:

- Market driven innovation in products and services
- Winning in quality growth markets worldwide
- Inspiring and rewarding talented people
- Exemplary performance in safety and health
- Responsible care for the environment
- The relentless pursuit of operational excellence.
(Source: 1997 ICI Annual Report)

DuPont

Core Purpose: To be the world’s most successful chemistry based company, dedicated to creating high quality, innovative materials that make people’s lives better and easier.

Values: Goals and strategies may change, but our values remain constant. These values unite all our businesses and are the foundation of our efforts to provide value to DuPont’s stakeholders – our shareholders, our customers, our employees, and society.

Cytec

"First we will be best, then we will be first".

We will be a world-class chemical company through: Customer Satisfaction, Technological Innovation, Manufacturing Excellence, and Employee Commitment—so that we can take pride in our achievements and our stockholders will enjoy the highest returns on their investments.
(Source: 1997 Cytec Annual Report)

Albemarle Corporation

Mission: Add shareholder value by surpassing customer expectations in the development, manufacture, and marketing of complex and innovative chemicals.
(Source: 1997 Albemarle Annual Report)
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