Harnessing Complexity, Idiosyncrasy and Time: A Modeling Methodology for Corporate Multi-Stakeholder Decisions

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This paper describes a modeling methodology for complex strategic decisions involving multiple stakeholders with multiple and divergent objectives. The methodology focuses on major strategic decisions, extracts underlying objectives, and illuminates stakeholder relations. We apply the modeling methodology to the fascinating story of Canadian forestry giant MacMillan Bloedel both for illustration and for theoretical purposes. We hope to demonstrate that this new methodology can preserve the idiosyncrasy of individual corporate decision cases, and yet permit comparison between vastly different decisions to contribute to the empirical base of stakeholder theory.

Introduction

The Multi-Objective Multi-Stakeholder Decision Modeling Methodology described in this paper is a systematic method to analyze complex decisions involving multiple and divergent stakeholders to study the "dynamics and effects of multiple stakeholders' objectives on corporate decisions" (Winn & Keller, 1999). In applying the method to examine major corporate policy shifts, we first extract decision elements from secondary data, then model fundamental objectives of key stakeholders in hierarchical form, and finally validate our findings with primary data. In this paper, we illustrate the method with MacMillan Bloedel's decision to phase out clear-cut harvesting in British Columbia's old growth forests. We close by examining the implications of our preliminary findings for stakeholder theory.

The Method: Theoretical Foundation, Purpose, Application

Increasingly, business organizations are held accountable for the impact of their actions, forcing corporate decision makers to incorporate a growing range of often conflicting interests of external and internal stakeholders into their decisions. Even as stakeholder management is becoming more commonplace in the language and strategy of business organizations (Clarkson, 1995), and as a growing number of scholars contribute theoretically (Jones & Wicks, 1999; Froeman, 1999; Mitchell, Agle & Wood, 1997; others) and to a lesser degree empirically (Henriques & Sadorsky, 1998) to the literature on stakeholder management, we nevertheless face considerable methodological hurdles to advancement of the field.

Specifically, these hurdles are related to the complexity stemming from multiple parties participating in large-scale decisions at the interface between private and public sector decision making. The idiosyncrasy of these multi-faceted decisions, the number of variables leading up to the decision, their complexity and the complexity of anticipated consequences of the decision taken together make it difficult to compare different decisions systematically. The methodology proposed here is a structured variant of qualitative case study methods. It draws on two disciplines of different theoretical and methodological lineage, decision analysis (von Neumann & Morgenstem, 1947; von Winterfeldt, 1987; Keeney, 1992), and stakeholder management (Froeman, 1994; Mitchell et al., 1997). To trace the evolution and crystallization of different stakeholders' conflicting objectives and their relationship to the decision made, we integrated qualitative methods (Miles & Huberman, 1984; Yin, 1984) with structured modeling approaches from decision analysis. In Winn and Keller (1999), we applied the method to retrospectively model the decision by Stantec to stop fish ing for tur u where dolphins were at risk. The methodology is now in need of real-time application.

The underlying research question is: How are corporate decisions affected by divergent stakeholder demands? By making decision structures a) of different stakeholders, b) at different points in time, and c) for different decisions accessible to systematic comparison, we hope to provide the alternative to laboratory experiments and surveys called for by Froeman (1999), to shift research on stakeholder decision making closer to its actual rich and complex decision context, and thus provide a new methodological foundation for the testing of theories of multi-stakeholder corporate decision making.

Systematically tracing changes in power, legitimacy and urgency (Mitchell et al., 1997) of stakeholders over time, for example, opens up opportunities for empirically based contributions to existing theoretical approaches. Strategic decision processes best suited for our approach have multiple stakeholders with strong and divergent views; they are dynamic over time, involve multiple conflicting objectives, and have high stakes. In an effort to standardize the method, we offer an instrument easily adapted to corporate decision cases involving multiple stakeholders (see App. 2).

Modeling a Strategic Decision: An End to Clearcutting

The case of MacMillan Bloedel Ltd. (NB), a forest giant in the embattled Pacific Northwest forest industry, involves stakeholders with highly contradictory objectives. While industry associations were working hard to improve the forest industry image and reputation, the industry as a whole faced grave challenges: drastically heightened competition from domestic and global markets, an increasingly hostile business environment due to regulation and labor practices, and a decreasing raw material base and concurrent environmental degradation. Pressure from environmentalists internationally was growing for firms to change the logging practices their industry is...
built on. It was in this general climate, that MacMillan Bloedel, a firm with a particularly bad reputation in terms of both financial performance and environmental record, announced a major strategic change: departure from the traditional practice of clearcutting. The decision caught industry analysts and opponents alike by surprise.

MacMillan Bloedel Ltd. (MB), established in 1960, was one of Canada’s largest forest products companies with integrated forest product operations in Canada, the United States and Mexico. Internal structures and the external environment combined in the last few years to seriously jeopardize the future of MB. External environmental pressures included falling timber and pulp prices, stringent regulations in British Columbia, excess capacity in key markets, environmental pressure and export quotas. In 1997, MB faced a net loss of $368 million. Under pressure from the Board of Directors, the company appointed Tom Stephens, a former vice-president of the company, as president of the company in October 1997. Mr. Stephens immediately initiated a comprehensive list of stakeholders, subsets of heterogeneous groups, and their respective interests will serve to (a) identify the key stakeholders, and (b) prepare the researcher for less obvious, but key stakeholders. We identified MB, shareholders, environmental groups, customers, unions, government (federal, provincial), competitors, First Nations, employees, management, suppliers, forestry associations and other forest resource users.

MacMillan Bloedel (the decision maker and primary stakeholder), shareholders, and Greenpeace were singled out for closer examination because of their apparent strong influence in the decision context and because of the apparent divergence of their values and objectives. Greenpeace exhibited the greatest amount of influence among environmental groups ranging from global to community level. MB’s customers constitute a diverse and geographically dispersed group (domestic, U.S., Japan, Europe) with different objectives and levels of influence over MB. With demand from Japan and the U.S. down, the European market becomes crucial to MB at the time of the decision.

Step 2: Compile Data Base
The next step is to verify decision dates, flesh out the list of key events and collect data that identify decision alternatives, stakeholder objectives, possible probabilistic events and the alternative actually chosen. Critical events include the growing influence of the boycott called for by Greenpeace on British Columbia forest products and the collapse of the Japanese market. The combined effect pushed MB to be more responsive than ever to the green demands of European buyers.

Based on secondary data, we identified these decision alternatives for MB: 1) maintain the status quo and continue with the controversial practice of clearcutting old growth; 2) phase out clearcutting in old growth based on stewardship zones; and 3) cease the practice of cutting old growth in British Columbia. A list of stakeholder objectives was also derived from secondary data to be modeled into objective hierarchies in Step 4. Possible events for MB included increasing interference from environmentalist interest groups such as Greenpeace, growing consumer boycotts, being shut out of the European market by competitors, and further worsening financial position.

Step 3: Model Decision Frame Timeline
In this third step, key points in time that affect major changes in the options available or changing influence are identified from the longer narrative of events. This step guides the decision of what points in time and what number of objectives hierarchies to model. For this case, we identified two periods in time, namely when a new CEO was appointed (July 1997) and when the decision to fundamentally change policy and phase out clearcutting was publicly announced (Spring 1998, see Table 1). Focusing on changes over time, we then modeled two objectives hierarchies for one stakeholder. The specific behavioral purposes of the study, with continual deepening understanding of the data, will guide the modeler’s choices. An expanded study could compare MB’s objectives hierarchies with those of other key stakeholders, e.g. Greenpeace and shareholders.
Step 4: Model Objectives Hierarchies
Modeling objectives hierarchies is an iterative process through the steps. Objectives hierarchies are a modeling tool for sorting objectives and organizing them into related categories, arranged in a hierarchical tree structure; they also illustrate the complexity of decision making when there are multiple objectives and multiple stakeholders. A detailed description of individual objectives and their interaction needs to accompany each objectives hierarchy. For illustration, we describe an part of MB's objectives hierarchy.

Objectives Hierarchy of MacMillan Bloedel (Table 1). The analysis of our extensive database led us to conclude that MB's overarching goal is to initiate changes to regain strategic choices and redevelop room to move and operate, with the ultimate goal to regain financial success. We isolated the sub-objectives of regaining profitability, changing the corporate image, and improving relations with stakeholders. Associated with each sub-objective are further secondary and tertiary objectives.

Regaining Profitability. Secondary objectives are to minimize costs, maximize revenues and focus on key businesses. Minimizing costs is again made up of three subdivisions, namely minimizing regulatory intervention, minimizing the cost of operations and reducing its debt burden. First, minimizing regulatory intervention involves government lobbying to minimize regulatory intervention in the form of the British Columbia tenure system and the Canadian/United States Softwood Lumber Agreement discussed in the narrative of events. Reform to regulation would substantially alleviate MB's high costs of operating in British Columbia. To minimize regulatory intervention minimizes constraints on managerial discretion in general, thereby reducing costs associated with the internal administration of regulation. Second and third are to minimize costs of operations and to reduce debt (detailed description omitted here).

Corporate Image. MacMillan Bloedel's second major sub-objective, to change its image, includes improving its forestry practices, seeking Forest Stewardship Council certification, avoiding negative press, gaining a reputation as a good corporate citizen, distancing itself from the negative reputation of the British Columbia forest industry and capturing reputational first mover advantages. The narrative of events provides several examples to support the evidence of these sub-objectives. For example, MB withdrew from the Forest Alliance of British Columbia and is the first major forest company in British Columbia to phase out clearcutting of old growth forests.

Stakeholder Relations. MB's third major sub-objective is to improve its relations with its stakeholders (see 90 Day Strategic Review, App 1). Foremost are environmentalist groups, such as Greenpeace. Secondary objectives include avoiding boycotts of the company's timber products, minimizing negative impact on its operations due to environmentalist protests, minimizing negative impact on its reputation, and minimizing its impact on the forest ecosystem. Greenpeace has waged

a European campaign calling for the international boycott of British Columbia forest products. To minimize further restrictions to the European market requires MB to work with groups such as Greenpeace. Shareholders are the second major stakeholder targeted for improved relations. Radical changes, such as divesting the paper production business, will allow the company's willingness to improve its financial performance and increase shareholders' returns.

Step 5: Validate Decision Frame Timelines and Objective Hierarchies
Secondary data served to complete steps 1 to 4 in preparation for the primary data collection through interviews. Here, objectives hierarchies, critical events, and decision alternatives are systematically validated in semi-structured interviews with individuals who were involved in, or close to, the decision. The questions in the generic instrument for use in semi-structured interviews (App 2) is easily adapted for any multi-objective multi-stakeholder corporate decision under study.

Step 6: Examine Decision Outcome
The last step in the methodology uses both secondary and primary data to examine how decision alternatives available at the time of the decision were on individual objectives expressed in the hierarchies. This step reveals internal inconsistencies, which may be a result of the methodology or of factors inherent to organizational decision making. Careful, iterative analysis is needed to reveal which it is. Here, decision alternatives were to maintain the status quo, phase out clearcutting, or phase out cutting old growth forest. We found validation that the three alternatives we culled from secondary data had been considered internally, since we are still in the stage of primary data collection, however, we have not yet completed this step.

Preliminary Findings & Implications for Theory
A formal discussion of findings would proceed along formal comparisons of hierarchies that trace changes over time for one stakeholder, that compare different stakeholders, or both. Alternatively, one might compare objectives hierarchies across different decision cases to examine the methodology's potential for meta-analysis for theory testing. Given that we have not yet completed all the scheduled interviews, we will demonstrate the potential of the method for further theory building and examine preliminary findings from our modeling approach vis-a-vis the conceptual system for classification of stakeholders proposed by Mitchell et al. (1995). Similarly, empirical findings can further illuminate other conceptual developments in stakeholder theory, many of which were presented at the IABS Conference in Paris.

Many of the changes at MacMillan Bloedel would not have taken place without strong internal champions and value leaders. It becomes evident from this and other studies that personal and fundamental values of various stakeholders need to be granted a conceptually separate existence from the broader and collective concept of legitimacy, to fruitfully advance understanding of both. Changes in stakeholder salience are easily traced with our methodology. Two examples of such changes at MB are, initially, the appointment of CEO Tom Stephens indicated that MB was responding to its
shareholders objectives. Later, following the results of the strategic review, MB made strategic changes in prioritizing its stakeholders. The move to phase out clear-cuts of old growth in British Columbia in favor of a system of variable retention appears to be in response to a web of stakeholders calling for more environmentally sustainable forest practices.

Legitimacy
According to Suchman, "legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995: 57). For MB, being perceived as a company whose strategy and operations make sense, and aiming to become the "most respected forest company" is a clear indicator of rebuilding legitimacy, along with easier access to resources (revenue from customers; capital from shareholders; greater discretion from governmental regulators; credibility/trust from environmentalists worldwide). This case demonstrates that the definition of "the public," so critical to the concept of legitimacy, is becoming global. Adding "the public" as another important dimension of globalization points to a specific instance of globalization and the social construction of reality.

We discovered initial evidence that preceding the decision there was a growing split between internally perceived legitimacy which had provided immunization to change (i.e., "we are doing things the best way possible") and external legitimacy, which was granted (or withheld) by relevant publics. This further highlights the need for more work in defining the legitimacy-granting public or multiple publics, as well as the need to more closely examine which publics become relevant under what circumstances.

If we apply the lessons of MB more broadly, the advancement of sustainable practices appears caught in a war of two legacies — the market perspective and the environmental conservation perspective. The search for sustainable solutions appears to face the fallout from that war. Joining the two perspectives runs into the wall of inherent contradictions of underlying paradigms. In fact, earlier work has pointed these out, perhaps only to cement them into serious roadblocks: examples are: conservation vs. economic optimization; leaving ecosystems be vs. interfering; precautionary principle vs. risk taking; opportunity seeking vs. threat avoiding. If the search for sustainable business practices is to move forward, it will need a new paradigm altogether. This study indicates that a new sustainability legitimacy can be founded on rejecting the concept of a war of legacies, on rejecting the assumption that these objectives are mutually exclusive, and on embracing the potential of the resulting tensions for stimulating innovation.

Power
A systematic examination of changes in objectives permits analyses of changes of power relationships, and the sources of such changes. The case makes clear that the growing power of the environmentalist groups did not occur in isolation, but rather in a web of enabling conditions. In a time of growing dependency on the European market and declining U.S. and Japanese markets, the green voices of a generally greener continent were heard loudly by many, amplified by political actions like boycotts. These in turn amplified the voice of the consumer to the point that large retailers made sustainable forest products a policy. Whether this influence will be channeled into long-term changes in firm operations remains to be seen. Changes in the organizational field (as MB's competitors follow) may well solidify the image, strengthening the commitment to follow through. The momentum initiated by MB was nothing short of bold. It may well carry the company into the full realization of its policy.

Urgency
We found ample evidence for the key role the ebb and flow of urgency played in making the decision. The method shows how changes in urgency interrelate with changes in objectives, legitimacy and power. For example, redefining itself as the new leader of progressive forest management, MB is establishing a more credible "pattern of behavior" (Suchman, 1995), granting the company a reprieve from external pressures (so less power is exerted against it), greater discretion for individual actions, as well as reduced urgency. Searching for a new (its own and the industry's) legitimacy, MB is also actively shaping and re-conceptualizing perspectives on how to do business in the forest industry in this part of the world.

Implications for the Method
A practical limitation of the method is its reliance on access to top management. The already chronic shortage of executive time is only amplified during the organizational turmoil typically associated with major policy changes. On the other hand, secondary data tend to be ample supply in high profile corporate decisions, providing the researcher with a wide range of perspectives.

Conclusion
The application of our method to other cases, new or existing, will further test its applicability for modeling organizational decisions involving divergent stakeholders. The benefits of constructing objectives hierarchies include comparing and highlighting potentially contentious areas and clarifying the extent of agreement and disagreement between conflicting positions. Interactions and influence between objectives and hierarchies can be seen as other stakeholder values are incorporated into the decision maker's own objectives hierarchy, an example of not only changing salience, but changing objectives. Future work will look at objectives hierarchies across industries, and the interplay of stakeholder influences inside and outside the industry. While relevant for any turbulent organizational context involving multiple stakeholders, the method is particularly applicable for organizations and industries searching for means to obtain sustainable business practices. Fundamental financial and especially short-term objectives often are in conflict with such goals, or are perceived to be in conflict. The study of successful and of unsuccessful efforts to incorporate such longer-term perspectives into business practice promises helpful insights.
References

Appendix 1: Timeline of Critical Events for MacMillan Bloedel 1995-98
1995
- Increasing Forest Regulation in British Columbia
1996
- U.S.-Canada Softwood Lumber Agreement (limits Canadian timber exports to U.S.)
- Annual Allowable Cut Decreases in BC (overcapacity leads to shut-downs)
- North American Paper Prices Fall Steeply
1997
- Decreased Demand For Forest Products From Japanese Market
- First quarter net loss of $10 million (MB Press Release, Apr. 21, 1997)
- NuChiahNulth and MB to form a JV company to manage Clayoquot Sound
- Appointment of New Chief Executive Officer, Tom Stephens (Sept. 1997)
- Start of 90 Day Strategic Review
- MacMillan Bloedel Meets with Leading Environmental Groups

1998
- Heavy critique on Stephens for disastrous state of MacMillan Bloedel

1999
- Results of 90 day Strategic Review (January): Problem highlights:
  - High costs (cost of providing fiber to mills; too many management layers; limited capacity to change) & lack of focus (too many businesses)
  - Proposed Strategy:
    - Aggressively cut costs (downsize by 13%)
    - Focus on key businesses (solid wood); discontinue paper & MDF
    - Build a new relationship between MB, MB's employees, the government, special interest groups and communities (MB Annual Report 1997).
- 1997 Results Disclosed (total net loss of $368 million)
- Stephens Looks to Purchase Solid Wood Operations on BC's West Coast
- More European Buyers Will Only Buy FSC Certified Timber Products
- MacMillan Bloedel to Sell Paper Division
- First Quarter Net Earnings of $16 million announced (starting turnaround)

*Forest Project Analysis Recommendations Accepted by Board of Directors (MB Statement of Intent, www.mbltd.com/forestprojectintent.htm)
- To increase conservation of old growth forest
- To replace clearcutting with a system of stewardship zones and variable retention harvesting and silviculture systems
- To achieve 1) & 2) in ways that permit forest certification under any of three private systems currently emerging (CSA, ISCC14001, FSC)

*MB Announces Plan To Phase Out Clearcuts & Introduce New Forest Mgmt. Regime
- MacMillan Bloedel Withdraws From Forest Alliance of British Columbia
Appendix 2: Generic Interview Questionnaire

1. In general, what stakeholders do you consider as important to your firm? Who are they and how important are they?
2. What are the primary objectives of your company today?
3. Are there primary objectives of your main stakeholders that are in conflict with the objectives of the company today? (How did you resolve the stakeholders' objectives? What type of communication do you have with different groups?)
4. If you think back to before the decision to do 'X', what were the objectives of your company at that point in time?
5. If you think back to before the decision to do 'Y', what were the key pressures from stakeholders at that point in time?
6. What specifically led to the decision to do 'X'? What were the internal and the external pressures? Did you consider your stakeholders' objectives?
7. What were the alternatives to this decision? (Maintain status quo/do 'X'/do 'Y')
8. Why was the decision to do 'X' chosen?
9. How effective do you think the decision will be in meeting your key objectives?

Specific Question: To achieve FSC certification, MB will be unable to log old growth. Yet in the recently announced results of the Forest Project Analysis it will continue to log old growth under the variable retention system. Can MacMillan Bloedel achieve FSC certification in light of old-growth logging? How does MacMillan Bloedel intend to achieve FSC certification?
10. Who was involved? Who actually made the decision? Who brought up the idea in the first place? Who championed the decision? What kind of resistance was there? From whom?
11. How has the decision affected your company's relationship to important stakeholders?
12. What new concerns do you expect the decision to introduce? How will different stakeholders likely respond to these?

Specific Question: What is the reaction from unions likely to be, and how does MB intend to deal with them?
13. How has the decision affected your company's relationship to other industry members?
14. What are the key pressures from the most important stakeholders today?
15. How did the importance of these stakeholders change since the decision to do 'X'?
16. What length of term do you place on your decision to do 'X' (short-term, long-term or permanent change in direction)? Is top management committed to follow through?
17. What are the key issues you have to deal with now? Over the last 3-4 years? Are there other key issues that can affect the outcome of this decision?

Specific Question: What is the projected impact of treaty settlements in BC on your company's current operations? What are the current strategies to integrate First Nations into operations in light of anticipated treaty settlements?
18. Which one of these issues has been the most important for your company?
19. Where did the pressures come from to deal with this issue (internal and external)? Were there any political struggles around this issue?
20. What other important issues did not make it on the corporate agenda? Should these issues have been dealt with?

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Table 1: Objectives Hierarchy of MacMillan Bloedel, Spring 1998

<table>
<thead>
<tr>
<th>Overarching Objectives:</th>
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<tbody>
<tr>
<td>GENERATE STRATEGIC OPTIONS / INNOVATIVE SOLUTIONS</td>
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<tr>
<td>TO REGAIN FINANCIAL SUCCESS</td>
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<table>
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<th>Specific Objectives:</th>
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<tr>
<td>MB1.1. Minimize Cost</td>
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<td>MB1.1.1. Minimize Regulatory Intervention</td>
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<tr>
<td>MB1.1.1.1. Minimize Regulation-Induced Cost Increases</td>
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<td>MB1.1.1.2. Minimize Constraints on Managerial Discretion</td>
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<tr>
<td>MB1.1.1.3. Minimize Impact of Restrictive Trade Barriers</td>
</tr>
<tr>
<td>MB1.1.2. Minimize Cost of Operations</td>
</tr>
<tr>
<td>MB1.1.2.1. Develop Efficient Harvesting Practices</td>
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<td>MB1.1.2.2. Improve Union Relations</td>
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<td>MB1.1.2.3. Avoid Work Stoppages Due to Environmental Protests</td>
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<td>MB1.1.3. Reduce Debt Burden</td>
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<td>MB1.2. Maximize Revenue</td>
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<td>MB1.2.1. Reduce Reliance on Any One Geographic Market</td>
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<td>MB1.2.2. Maximize Productivity</td>
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<td>MB1.2.3. Avoid Boycotts of Timber Products / Regain &quot;Social License&quot;</td>
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<td>MB1.3. Focus on Key Businesses</td>
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<td>MB2. Change Corporate Image</td>
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<td>MB2.1. Improve Forestry Practices</td>
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<td>MB2.2. Seek Forest Stewardship Council Certification</td>
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<td>MB2.3. Avoid Negative Press</td>
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<td>MB2.4. Gain Reputation as Good Corporate Citizen</td>
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<td>MB2.5. Maximize Distance from Reputation of BC Forest Industry</td>
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<tr>
<td>MB2.6. Capture Reputation First Mover Advantages</td>
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<tr>
<td>MB3. Improve Stakeholder Relations</td>
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<td>MB3.1. Minimize Negative Environmental Impact on Reputation</td>
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<td>MB3.1.1. Minimize Negative Environmental Impact on Reputation</td>
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<tr>
<td>MB3.1.1.1. Avoid Boycotts of Timber Products</td>
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<td>MB3.1.1.2. Minimize Impact on Forest Ecosystem</td>
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<td>MB3.1.1.4. Maintain Wildlife Habitat</td>
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<td>MB3.2. Improve Relations with Shareholders</td>
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<tr>
<td>MB3.2.1. Show Immediate Action to Improve Financial Situation</td>
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<td>MB3.3. Improve Relations with Unions/Employees</td>
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