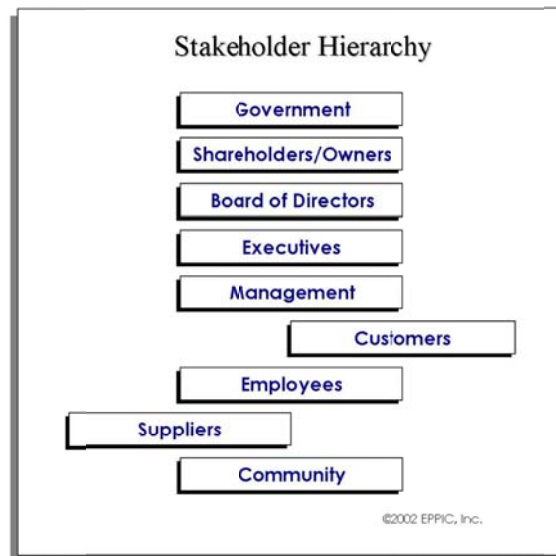


The Customer Is King (Not)

Balancing Conflicting Stakeholder Requirements

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Overview of the Problem

The slogans accompanying many Total Quality Management (TQM) efforts emphatically state that the “Customer is King.” Customer satisfaction reigns supreme! All things for the customer! Meet the customer requirements. Exceed the customer requirements to delight the customer. Quality is defined by the internal and/or external customer.

This overly simplistic view of quality ought to cause many executives to lose sleep and quiver with fear at the frightening thought that if they, too, follow their peers’ lead and push the TQM movement into their own organizations, everyone on the payroll might take the slogans literally and act accordingly. Very, very scary.

One emphatic question: Are we willing to meet the customer’s requirements at *any* cost?

The emphatic answer in a word: **No!**

The reason the answer has to be “No!” is that nothing in business (or anywhere else) is really that simple. There are more stakeholders than just the customer, there is often no one customer, there is often no one right answer as to what the requirements are, nor is there any point in ignoring one of

the key considerations in making a business decision—cost. The truth is that there are always a number of complex tradeoffs in business decision-making.

Many TQM advocates have done a poor job of convincing management that they understand these tradeoffs; as a result, the TQM discipline sometimes sounds naive about the realities of business. On the other hand, some executives seem to oversimplify their message to make it clear; in the end, they fail to give sufficient guidance to people being “empowered” to make decisions lower in the organization.

Should the customer really be treated as king in all decision-making processes? In the frontline interfaces, *usually* yes! But what if the customer approached your frontline employee and asked for a free replacement of an expensive item clearly damaged due to customer negligence?

Some of the literature might suggest you should replace the item, no questions asked—the theory being that such exceptional acts lead to word-of-mouth advertising and even more business in the future. Of course, this strategy may require higher prices to cover the cost of this level of service, which may run counter to the requirements of some other customers. There may be regulations about what you can do with the returned item. There may be legal reasons why you shouldn’t accept the return based on pending litigation or future liability.

The point isn’t what the right answer is; the point is that regardless of the answer, there are a lot of stakeholders in even a simple decision whose requirements need to be weighed into that decision.

Are all Requirements Created Equal?

Often the requirements of the various stakeholders are in conflict with each other. How do we balance the requirements and determine where tradeoffs can be made? How do we evaluate them to determine how to create a win-win solution for everyone? How do we conclude whether win-win for everyone is actually feasible and not just a “pie in the sky” goal in a world of variability? Ultimately, economic requirements must be part of the decision-making process.

Think about executive management’s role in a publicly held corporation. Their primary purpose for being on the payroll is to protect and increase shareholder value. They represent the shareholders (owners). Their job is to act as the guardians of the owners’ investments (assets). This is known as their “fiduciary responsibility.” Webster defines *fiduciary* as follows: “. . . designating . . . a person who holds something in trust for another”

This responsibility is management’s, under penalty of law. Executives who mismanage the shareholder’s equity could be taken to court and jailed if found guilty. You see, it’s not only their job, it’s the law. Therefore, management cannot allow any projects or activities to be undertaken that are not seen as a means to protect and/or increase the value of the corporation.

On the other hand, the TQM advocates have a point when they try to move the focus away from profit as a goal toward profit as a result of competent, fair service. Executives need some way to get the message out that the company exists at the will of its customers and that continued competitiveness can only come by profitably meeting customer needs better than the competition. The problem is that slogans are incomplete—management might just as well run around shouting,

“Empowerment to the people! Delight the customer! Improve all processes everywhere continuously!” All that activity is sure to generate some results. The trouble is that, without a sound business evaluation, the results may be nothing more than costs. Maybe that is why number 10 of Deming’s 14 Points is to eliminate slogans, exhortations, and targets. But management’s problem still remains: what is the right message to convey to the troops?

The message that we want to convey is that the customer is not the only one whose requirements we must consider. Many other groups have a “stake” in our decisions. Effective decisions must balance the requirements of a number of disparate stakeholders. Let’s take a look at who these stakeholders are, what their requirements typically are, and how much “clout” they carry.

Stakeholders and Requirements

There are eight generic or basic stakeholder categories, with many potentially different types of people in each of them. The categories are

- Government
- Shareholders
- Executive Management
- Customers
- Standards Bodies/Professional Associations
- Employees
- Suppliers
- Community

The general definitions of each follow.

Government

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

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

Shareholders

Shareholders are the owners of the business. Their shares represent capital invested in the organization with an expectation for an equitable return. Their goals are typically financial, long-term growth in equity or short-term income through dividends, but can be related to other things such as greater societal enhancement, environmental protection, etc.

Like putting money in the bank or another investment, they expect to get a fair profit over the inflation rate. Shareholders essentially lend their capital to a group managing a business entity in exchange for the chance to earn additional money. The management group is responsible to the shareholders for the business results. If the executive management group does not achieve shareholder financial performance goals, they will either be replaced or the investors will withdraw their capital and invest it elsewhere. An entity without a sound capital base will eventually be crippled.

Executive Management

The executive management stakeholders are those responsible for the operations and results of the entity. They may be the “partners” who contributed and own all the capital of the entity and run the

business. They could also consist of an elected board of directors responsible to all the owners and the executive management team in charge of overseeing daily business operations.

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

Customers

Customers are typically a nonhomogenous group. Segmentation schemes allow us to analyze them as distinct groups for the purposes of gaining insights into their situations, problems, and needs.

In some cases, such as in large-scale contracting businesses (e.g., aircraft or information systems), many of the customer requirements are specifically defined or the customer provides enough information to allow the provider to define requirements on their behalf. However, there are many different groups within the customer organization (such as technical experts, business management, contract management, etc.) with unique, and sometimes conflicting, requirements. In other types of businesses, the provider has to generalize the requirements of the entire marketplace in order to build the right product to put on the shelf. And in either of these situations, customers may not really know exactly what they want or what is available to help them with their problems/opportunities.

But one thing is certain—customers will generally demand a quality product at a competitive price. Some feel that customers want the moon at half the cost of providing it. If a business tries to meet this requirement, that is certainly not in alignment with the requirements of our shareholder stakeholders. Selling below cost is like committing economic suicide, unless the organization is “buying” enough future business to warrant a short-term loss.

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

Standards Bodies/Professional Associations

Another potential stakeholder constituency is made up of the various organizations that establish technical and business practice standards. Though their requirements are similar in type to the governmental regulators, these organizations do not have the power of law to enforce their point of view. However, many of these organizations wield a great deal of influence both in the marketplace and in the area of regulation—it would be a mistake to ignore their requirements, unless you choose to deliberately go with a nonstandard approach to your product or service. Then, that’s a business decision. It has its potential risks and rewards.

A standards body stakeholder may generate requirements for the output of your business such as packaging/labeling, purity, “recyclability,” percent parts manufactured domestically, etc. In addition, they may address the processes *within* your company, such as the implementation of your quality

management system, hiring and recruitment processes, and so on. They may have the power of law, or it may be more of an informal policy-setting body. As always, it depends.

Employees

This stakeholder group includes all ranks of employees below the executive management level—upper middle management, middle management, supervisors, and the individual contributors. At the heart of all employee requirements are a safe workplace and financial security, but other needs exist among the groups.

Some employees want the opportunity for career growth and advancement. Others want a work situation where they can use their intellect and creativity. Others may simply want a nondemanding set of tasks to do before they head home each day. Each set of needs is as different as the individual doing the job. Global assumptions such as one that assumes that everyone wants to be a team player will only lead to a population of dissatisfied employees. Organizations need to listen carefully to all their employees.

Suppliers

Suppliers, whether internal or external, are also a key stakeholder group. As a business entity, they need to achieve a profit margin that will allow them to remain in business. If we want to promote a long-term arrangement with particular suppliers, we need to be aware of the impacts of our decisions on their business. Our objective should not be to drive prices for their materials/components so far down that they become unprofitable.

Supplier requirements typically include

- Clear/stable specifications for their products and services
- Stable demand (or accurately forecasted demand)
- Prices that enable a growth in their shareholders' equity

A win-win collaboration with targeted suppliers helps to ensure that we have a stable inflow of goods and services to meet the needs efficiently of our own process and business requirements. It's not just a nice theory; it's a good business practice.

Community

The community stakeholders, although a less formal group, remain important through the influence they can have on our businesses. The community can choose to support your business or, if they do not agree with the ways in which your operations are run, bring it to the attention of the greater public.

Their interests primarily lie in community and environmental safety, jobs for the members of the local community, and cooperation with community interests. Community members can be a nuisance or they can be a base of support, depending upon the effort put into establishing that relationship.

Balancing Stakeholder Requirements

It would seem, given the extent of our stakeholders and requirements list, that there are really three problems. The first is identifying specifically who the primary stakeholders are for any given

situation. The second is understanding their requirements and the priorities that ought to be placed on those requirements. The third problem is the most difficult—balancing those requirements that are in conflict. Balancing the requirements means making the tough tradeoffs on whose needs will be exceeded, whose will be met, and whose will not be met (at least in today's view).

The multitude of requirements can be simplified (or at least made more manageable) using a matrix format. The Stakeholder Requirements Matrix (see example in the sidebar) can help organize the requirements definition and balancing process, especially when you are trying to develop a consensus view across a team. It gives you a starting point for a list of stakeholders and for their individual requirements. The specifics of your own decision or process will probably require you to expand or reduce this master list.

Basically, the matrix shows the key requirements of each of the primary categories of stakeholder. These requirements are general but can be made more specific as needed. For example, instead of a general heading of “suppliers,” you may be able to list the individual companies and note that Supplier A wants to provide a broader range of services while Supplier B is more concerned with a stable volume of orders. To be sure you have the full range of requirements covered, use the general items as a checklist.

One way to go about completing a matrix for your own situation could be to identify individuals who represent each stakeholder group and ask directly for their perspective. Most large corporations have internal organizations with expertise in areas relevant to the various stakeholder groups and which can represent their interests in situations where you don't want to discuss things with the actual stakeholder groups. For simple decisions, you may find that our general default requirement list is sufficient.

The Hierarchy of Stakeholders

As mentioned earlier, besides there being a large number of requirements, many of them may be in conflict with each other. The matrix will allow you to identify if, in a given situation, there are conflicts between the requirements of the various stakeholders. You can use the center section to evaluate each requirement against every other requirement and to identify the severity of that conflict at the intersection of the two requirements.

Typically, the higher the group in the stakeholder hierarchy, the more “clout” they have and the more complex their requirements will be. In some situations, the specific requirement of a lower-placed stakeholder may seem to take precedence over a higher level stakeholder, but usually the hierarchy is kept intact.

Saying the hierarchy is usually not violated is not saying there aren’t honest differences of opinion on how requirements should be met. For example, if you give away something to buy future business (which, in the short term, runs against shareholder requirements for profit), it is always positioned as good for the long term, so the integrity of the hierarchy is, in fact, kept intact. The arguments are not over whether the shareholders should be ignored but rather over whether the giveaway will really lead to increased shareholder value in this instance.

So, how do you balance the requirements of such a diverse set of stakeholders? It’s no small feat. Each requirement needs to be considered relative to the requirements of other stakeholder groups and, in addition, relative to what the company feels that it can and wants to meet. The Stakeholder Requirements Matrix will help organize your information and communicate with the constituencies involved in the decision about all the requirements, conflicts, and tradeoffs, but it will not give you an answer.

The real key is to truly understand the “whys” behind the requirements of the stakeholders so that, if a compromise is necessary, you can choose the least offensive alternative and defend it rationally. Understanding the “whys” will also lead you to the real requirements and away from “nice to haves.”

What Happens if We Don’t Balance Stakeholder Requirements?

If employees only consider *customer* needs when working on continuous improvement efforts, on new product development teams, or even in front-line customer contact situations, they run the risk of missing and/or conflicting with the requirements of the other stakeholders. The stakeholders that will be overlooked are those farthest removed from the people making the decision. If it is a front-line employee decision, chances are he or she will be underinformed about the requirements of the stakeholders higher in the hierarchy, especially the shareholders and regulators. On the other hand, executives may not easily see the impact of their decisions on the requirements of the employees or other lower level stakeholders. Missing or failing to balance these requirements can have a serious impact on the organization.

- The decisions made by these employees may result in a waste of shareholder equity in chasing requirements that customers aren’t willing to pay for, that don’t fit the standards of the industry, or are outside the company’s strategic direction. Ultimately, your company may wind up with the wrong product and/or an uncompetitive cost structure.

- If management reverses the decisions made by these (newly empowered) employees, the waste will be avoided, but the employees may begin to distrust management. What they see is management behaving in ways quite incongruent from what the slogans seemed to promise. Management is seen as “not walking the talk.” They are duck walking—ducking the issues. TQM is then viewed as another management lie, or the latest management fad being promoted this year from the consulting quacks. What they don’t see is that the real driving force behind all business decisions is the overall good of the business—the slogans didn’t communicate the full message.
- Ultimately, the entire TQM effort could be discredited and abandoned because it is seen as ineffective when, in fact, it was just implemented poorly. By ignoring basic business realities, the TQM initiative will cause itself to be shut down, resulting in the waste of whatever time and effort has been put into it in the form of training programs, task force meetings, etc. Shutting down the program will only make employees more resistant to putting any effort into the next good idea and the company (including the shareholders) will miss out on the real benefits that an effective TQM initiative can deliver.

What is quality? To whom? Is it really just making a product better, cheaper, or faster? To the customers, perhaps, but chances are that stockholders define it quite differently. Stockholders are likely to be looking at quality from an investment standpoint. They want an investment that will appreciate or grow in value faster than other opportunities.

Increasing shareholder value is indeed linked to satisfying both internal and external customer requirements. If enough of your external customers become dissatisfied, products/services sold will ultimately decrease (along with revenue, profit, market share, etc.). Unchecked, this will lead to a decrease in the market valuation of your stock.

Dissatisfied internal customers and their requirements also need to be dealt with. Meeting all of their requirements may allow them to optimize their processes, but that might not be good for all of the stakeholders. It may be very convenient for the product inventory management system if product orders could be filled in batches. However, at some point, customers will not wait so the internal customer’s requirement for efficiency can be met. You may need to override the internal customer’s requirements and incur some inefficiencies so you can meet the customer’s requirement for timely delivery. Efforts to continually reduce that time are worthwhile, but you wouldn’t want to end up with double the inventory levels of your competitors just to meet this customer requirement. Your costs won’t be competitive. That is, unless the customer is willing to pay for this level of service. Rational business decisions can only be made upon examining the net costs in relation to the payoff of the requirements. It is necessary to analyze business metrics in conjunction with the customer requests.

Increased shareholder value is not accomplished simply through meeting and exceeding the known customer requirements. Long-term shareholder value will be best leveraged by understanding the customers’ requirements, the competition, and where the greatest return exists given the business’ long-term goals, strategies, and finite resources.

What we all need to understand is that meeting customer needs is yet another instance where there are a series of tradeoffs and compromises. Business decisions are inherently complex due to the conflicting demands of our stakeholders. The message that needs to be communicated to our employees is that there has to be sound logic applied to making business decisions. We need to focus on customer requirements but not to the point where we forget to look at profitability. And most times, we will not be able to meet everyone's needs.

Think of the tradeoffs made in our personal lives on a daily basis. How do you decide which set of in-laws wins the first holiday visit to see the new grandchildren? Whose career will take precedence when the next opportunity knocks? Do you buy a quart of oil every week for \$2.00 to drive the old beast to the job, or rebuild the engine for \$3,000.00? Well, it depends on your need for automobile transportation. If you have enlisted for a four-year term in the Navy and leave in 30 days, buy the oil. If you're planning to keep the car for a child getting their license in 12 months, maybe the engine should be rebuilt. You need to understand what is at stake in the decision.

Conclusion

We must understand all of the stakeholders involved in business. The customer cannot reign above all other stakeholders. Their requirements must be understood and balanced within the context of their hierarchical relationship. We must put customer requirements in the proper perspective to determine which we will allow to drive our decision-making.

And we need to get this message across to our employees. The customer's demands should not be met at all costs. There may be situations in which it is better to lose a client rather than jeopardize the business. There may be good reasons why a customer need cannot be met, which needs to be conveyed to employees who can then, in turn, inform the customer. Employees need to understand the stakeholder segments, typical requirements, and the hierarchy.

Which stakeholder's requirements will take precedence when conflict arises? What customer requirements should not be met now, and/or later, and why? Questions such as these can only be answered after all requirements are uncovered and judged in relation to one another to understand the full implications of any decision. There are no simple answers. It is inherently complex and takes time and effort.

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

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Appendix

The Stakeholder Requirements Matrix is a simple way to look at all the stakeholders in a process, decision, or organization; delineate their individual requirements; and identify where there are conflicts between those requirements. Much of the value of this tool (as with many of the “Quality Tools”) is in the process of working through it, rather than in the chart you end up with. The template is fairly easy to use. You should customize it to meet your situational needs as the number of stakeholders and their requirements will vary.

The example below shows part of a matrix developed to analyze the customer requirement for the ability to customize their orders. This requirement seems like a legitimate need, like an improvement, and worthwhile to the company. However, it does conflict with some key stakeholders.

The ability to customize is likely to affect the interchangeability of the end products. This situation ranks a 3 in our example—high level of conflict. It is very likely that one of the requirements will have to be sacrificed. Another conflict that ranked high was the company strategy to be the low-cost, high-volume producer because it was decided that, in this hypothetical case, customization would raise product costs. Finally, the supplier’s need for a stable market for his/her components is threatened, as components per order would become variable.

As you can see, every situation or decision will result in a unique matrix. If the company strategy was high price, high level of service, then customization would not conflict with the strategy. In that case, the supplier requirement may indicate that there is a mismatch between your business goals and your suppliers’. Maybe you need to work with your supplier to resolve the issue or find another supplier. There is no easy answer, but at least now the conflicts are identified and can be dealt with.

Please refer to figure 1: Stakeholder Requirements Matrix on page 7.

It is easy enough to construct your own matrix. Using a spreadsheet program will make it easier to add/delete columns.

Here is how to complete the matrix.

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

Government

Compliance with laws and regulations relating to

- Health/safety
- Environment
- Taxes
- Labor relations

For more insight, talk to your executives, the law department, standards groups, and your labor relations organization.

Shareholders

- Long-term returns (growth in the value of shareholder equity)
- Short-term returns (quarterly dividends)
- Alignment with societal norms (EEO, AA, environment issues, etc.)

For more insight, talk to your board of directors, public relations, and your finance organization.

Executive Management

- Progress toward long-term business goals and strategies
- Progress toward short-term business goals and strategies
- Company reputation with the shareholders and the marketplace customers

For more insight, talk to your CEO and functional/unit executives.

Customers

- Products or services meeting their requirements at a cost/value ratio that beats your competition
- Competitive pricing/payment terms
- Enhancements to the products and services that delight
- Commitment to meet their future needs

For more insight, conduct a customer survey and talk to your marketing/sales/service personnel who work closely with customers. Be aware of what your competitors are doing and are planning to do.

Standards Bodies/Professional Associations

- Creating and updating technical interfaces/connectability
- Terminology/definitions
- Professional competence development, qualifications, and certification

For more insight, determine which groups are appropriate, contact them, and review their literature to see what specific interests they are focused on for their membership.

Employees

- Job security
- Competitive wages and benefits
- Safety
- Opportunities for personal challenge and growth

For more insight, talk to your union officials, labor relations personnel, and all levels of employees. Manage (and learn) by walking around. Survey attitudes and concerns by holding formal and informal discussions with your employees or conducting employee attitude surveys. Use suggestion programs.

Suppliers

- Continuity of business
- An accurately forecasted demand for their products/services
- Profitability

For more insight, talk to your suppliers and your materials/purchasing organization personnel.

Community

- Environmental
- Economic
- Safety

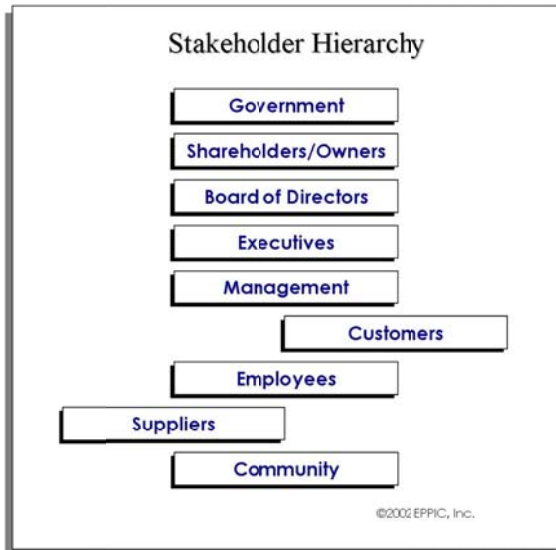
For more insight, talk to your public relations organization, the local civic groups, churches, etc., and talk to your own employees from the communities in which you operate.

2. The numbers along the horizontal line correspond to those listed vertically. Add additional columns as required to correspond to the number of requirements listed vertically.
3. Completing the internal cells of the matrix is quite simple. Compare each requirement along the left edge to the numbered requirement along the top. The purpose is to understand where specific requirements cause conflicts with others. Rate those requirements with a high level of conflict at 3, those with a medium level of conflict at 2, and with low conflict at 1. Requirements that do not conflict should be left blank.

Consider every conflict in relative terms, because it is very difficult to establish absolute value assessments. Legal obligations, for example, have to be met. Thus, if a requirement conflicts with legal obligations, that is obviously rated a high (3) in the matrix.

Feel free to adapt the Stakeholder Requirements Balance Matrix to your environment and your situation to help you sort out the variable and potentially conflicting requirements of your world.

Another example hierarchy...



Matrix example...

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

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

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