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Engaging fringe stakeholders for competitive imagination

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Executive Overview

In a connected world, remote groups at the fringe of a firm's current operations can find common cause, exerting increasing pressure and calling into question the firm's legitimacy and right to operate—witness the recent debacles involving Monsanto, Shell, and Nike. Moreover, the knowledge needed to generate competitive imagination and to manage disruptive change increasingly lies outside the organization, at the periphery of firms' established stakeholder networks. Unfortunately, most companies still tend to focus management attention only on known, salient, or powerful actors to protect their advantages in existing businesses. In recognition of these challenges, we develop the concept of Radical Transactiveness (RT). RT is a dynamic capability which seeks to systematically identify, explore, and integrate the views of stakeholders on the "fringe"—the poor, weak, isolated, non-legitimate, and even non-human—for the express purpose of managing disruptive change and building imagination about future competitive business models. RT consists of two complementary skills. First, by reversing the logic of traditional approaches focused on managing powerful stakeholders, firms fan out to identify voices at the fringe of their networks to both preempt their concerns and generate imaginative new business ideas. Second, by creating mechanisms for complex interaction and empathy with those on the fringe, firms fan in to integrate and reconcile this knowledge with existing know-how to design and execute disruptive new business strategies.

In October 1999, under a swarm of global protest, Monsanto publicly announced that it would not commercialize seed sterilization technology, a promising new product in its burgeoning portfolio of genetically modified seeds. CEO Robert Shapiro apologized for Monsanto's behavior: "Our confidence in this technology and our enthusiasm for it has, I think, widely been seen—and understandably so—as condescension or indeed arrogance."[1] With this admission, Monsanto's vision for a global life sciences company had officially come to an end. This is especially striking when one considers that Monsanto had received full governmental approval for all of its products and technologies, broke no laws in pursuit of its strategy, and had engaged its salient and important stakeholders in this process of change. What went wrong?

Between 1993 and 1998, Monsanto spun off its chemicals business and made $8 billion worth of acquisitions in the area of agricultural biotechnology. Through its aggressive promotion of genetically modified (GM) seeds in the US (nearly 50 million acres planted by 1998), the company increased earnings at a compound annual rate of 15.5 per cent and grew total return to shareholders by 285 per cent. Monsanto appeared to have successfully transformed itself from a low-margin producer of chemicals into a technology company with a P-E ratio to match.[2]

Yet during this period of strategic transformation, growth, and optimism, questions unanticipated by Monsanto began to emerge about the potential human health side effects and environmental consequences of biotechnology and the genetic engineering of seeds. "Frankenfoods," as genetically engineered foods had come to be known in Europe, were increasingly under attack by consumer groups, retailers, and non-governmental organizations (NGOs). The backlash also began to manifest itself in the developing world. Millions of small farmers in India, for example, protested in the streets against Monsanto based on fears that the company would force them to pay international prices by enforcing patent ownership of seed sterilization technology. This technology, dubbed the "terminator" by an NGO, would prevent farmers from propagating the seed from their own crops.

Smart Mobs versus Smart Globalization

How do we account for the rapid rise—and even more precipitous fall—of a major corporation like Monsanto, which had done nothing wrong according to society's legal and regulatory institutions and had in fact transformed its business model to add value to its customers while reducing environmental impact? Certainly the emergent nature of biotechnology had something to do with the problems that Monsanto experienced. Indeed, an accelerating pace of technological change appears to be generating ever-faster cycles of creative destruction.[3]

Yet there is something even more fundamental at work here. The power of governments has eroded in the wake of globalization and the growth of transnational corporations with global supply chains that span several continents. Non-governmental organizations (NGOs) and civil society groups have stepped into the breach, assuming the role of monitor and, in some cases, enforcer of social and environmental standards.[4] Today, for example, there are more than 50,000 international NGOs compared to less than 20,000 only a decade ago.[5]

The power of governments has eroded in the wake of globalization.

At the same time, the spread of the Internet and other information technologies has enabled not only these groups but millions of individuals to communicate with each other in ways that were unimaginable even a decade ago.[6] Indeed, Internet-connected coalitions of NGOs and individuals—smart mobs—are now making it impossible for governments, corporations, or any large institution to operate in secrecy.[7] The varied claims of these smart mobs have created a dynamically complex business environment in which organizations find it difficult to determine what knowledge is relevant for managing strategic change; just ask senior managers at Shell, Nike, the World Trade Organization, or the World Economic Forum.

Unfortunately, as the Monsanto case illustrates, most companies still tend to focus management attention only on known, powerful, or "salient" stakeholders—those who can directly impact the firm.[8] Even recent efforts at "radical transparency"—the complete and truthful disclosure of an organization's plans and activities—appear inadequate, since they entail reporting only what has already been decided or, in fact, accomplished. Yet in a world of smart mobs, firms cannot manage stakeholders. Instead, swarms of stakeholders self-organize on the net in chaotic and unpredictable ways.

Groups at the "fringe" of a firm's stakeholder network can acquire an important voice in such swarms. To avoid the wrath of the smart mob, it has now become essential to proactively seek out the voices from the fringe that had previously been ignored. In order to survive and compete for the future, firms must harness these voices to identify creative new business models and opportunities. The tyranny of the smart mob can yield to a new form of what might be called smart globalization: growth via disruptive business models that address the social and environmental concerns of fringe stakeholders.[9]

Increasingly, multinational corporations cannot know in advance the knowledge that is required for competing successfully. Indeed, the knowledge needed to generate unique and disruptive ideas often lies outside the organization. Firms often do not know which stakeholders are salient and important for generating the knowledge required for innovation. Clearly, however, it is not practically possible to involve every stakeholder potentially affected by a corporation in the decision process.

What is needed, therefore, is a new capability focused on engaging the stakeholders necessary for managing disruptive change and creating competitive imagination. Rather than engaging only known or powerful stakeholders concerning existing businesses, such an approach instead seeks to systematically identify, explore, and integrate the views of those on the periphery or at the "fringe"—the poor, weak, isolated, non-legitimate, disinterested, and even non-human. Accordingly, we here propose the concept of Radical Transactiveness (RT)—the ability to continuously acquire and combine knowledge from fringe stakeholders with radically differing views in order to avoid stakeholder swarms and build the competitive imagination that will be necessary for future business success.

Toward Competitive Imagination

In the past, competitive advantage was based largely upon lowering cost or gaining differentiation in existing industries and businesses. In the future, competitive advantage will depend more upon the capacity to generate disruptive innovation and creative destruction through competitive imagination.[10] Indeed, a growing body of scholarly work suggests the importance of Joseph Schumpeter's assertion over a half-century ago that "the problem that is usually being visualized is how capitalism administers existing [industrial] structures, whereas the relevant problem is how it creates and destroys them."[11] Over the past decade, it has become increasingly clear that the importance of disruption and innovation to corporate success has been on the rise.

Foster and Kaplan, in their book *Creative Destruction*, demonstrate empirically that the base rate of the economy has been accelerating over the past eighty years, with dire consequences for industry incumbents: the turnover rate for the S&P 500 has increased from about 1.5 per cent per year in the 1920s to nearly 10 per cent today. This implies that the average number of years spent by a firm on the Standard & Poor's Index has declined from sixty-five years in the 1920s and 1930s (S&P 90) to ten years in the 1990s (S&P 500). By 2020, "more than three-quarters of the S&P 500 will consist of companies we don't know today—new companies drawn into the maelstrom of economic activity from the periphery, springing from insights unrecognized today."[12]

Thus, managing for continuity and efficiency, through cost or differentiation advantages in existing industries and businesses, is no longer enough. In the future, competitive advantage will increasingly shift to the capacity for exploration, disruptive innovation, creative destruction, and corporate imagination.[13] A firm's competitive rate of innovation is an important determinant of its profitability due to the creation of a longer revenue-generating time horizon and the potential to acquire a dominant share of the market. More radical innovations allow firms to reap higher profits due to longer competitor response times. Therefore, the potential for an increased rate of disruptive innovation is a key to competitive advantage.[14]

Sustained corporate performance will increasingly depend upon competitive imagination to drive innovation and creative destruction. Competitive imagination necessarily involves skills in harnessing "radical" perspectives from the outside to provide insights into strategic futures. The pursuit of competitive imagination thus requires a new approach of stakeholder integration—one which moves beyond the static "management" of known parties in the center of a network to the dynamic process of identifying and engaging actors from the "fringe."

Beyond Stakeholder Management

The central argument put forward by Ed Freeman in his path-breaking book *Strategic Management: A Stakeholder Approach* was that the firm should consider in its strategic management process not only those groups who can affect it but also those who are affected by its operations. Freeman argued that consideration of the latter is important because "the ensuing strategic management model will be sensitive to future change."[15]

Ironically, the resulting work on stakeholder management has focused almost exclusively on the former: primary groups that are critical to the firm's survival in its current business. These include investors, employees, customers, suppliers, and the government, and others whose claims are considered powerful, urgent, and legitimate by managers.[16] Indeed, the emphasis is on corporate strategies for responding to those who control critical resources, or are able to exert influence and control information access by virtue of their position in a network.[17] By doing so, it is argued that firms can gain competitive advantages in the form of customer loyalty, supplier relationships, lower employee turnover, and improved reputation.[18]

Unfortunately, the management of stakeholder concerns based on their control of critical resources or centrality in a network helps a firm deal with threats from the environment only after they emerge. Firms need to manage radical uncertainty by acquiring knowledge from diverse and dispersed heterogeneous stakeholders, many of whom may be adversarial, in order to prevent the surprise emergence of such threats as those that affected Monsanto.

Current approaches to stakeholder engagement are based on either resource dependence or moral arguments for managing stakeholders to achieve cost reduction, differentiation, or legitimacy in existing businesses. The potential for engaging stakeholders to understand "future change" or to resolve the radical uncertainty of constantly evolving knowledge is not considered. Accordingly, the next section develops the concept of Radical Transactiveness. Such capability enables firms to deal with dynamically complex business environments by engaging stakeholders from the fringe to manage disruptive change and generate competitive imagination.

Radical Transactiveness

Radical Transactiveness (RT) is "radical" because it focuses on gaining access to stakeholders previously considered extreme or fringe for the express purpose of managing disruptive change and creating competitive imagination. RT is "transactive" because it seeks to engage the firm in a two-way dialogue with stakeholders such that each influences and is influenced by the other. Interactions among diverse stakeholders extend the boundaries of the firm, offering the possibility for learning and growth not envisioned at the beginning of the process. RT thus allows a firm to understand the complex and evolving issues that may potentially affect the basis of its future competitive advantage.

Figure 1 depicts the difference between "core" stakeholders—those visible and readily identifiable parties with a stake in the firm's existing operations—and "fringe" or peripheral stakeholders. Whereas core stakeholders gain a seat at the table by virtue of their power, legitimacy, or the urgency of their claims, fringe stakeholders are typically disconnected from or invisible to the firm because they are remote, weak, poor, disinterested, isolated, non-legitimate, or non-human. They may be affected by the firm but have little, if any, direct connection to the firm's current activities. However, fringe stakeholders may hold knowledge and perspectives that are key both to anticipating potential future sources of problems and to identifying innovative opportunities and business models for the future. For example, Hewlett-Packard's "Living Lab" in the village of Kuppam in India was established to learn the possibilities of information technology and Internet use by the rural poor in developing countries. This effort is intended to help H-P imagine and design the products and services of the future.[19]

By opening communication channels to previously untapped sources of intelligence, RT helps the firm maintain a dynamic alignment of its strategy with the changing environment. Knowledge and learning from fringe stakeholders signal to the firm the investments it should make in appropriate resources and capabilities, allowing it to generate new value-creating strategies.[20] For example, Hindustan Lever Limited (HLL–Unilever's Indian subsidiary) requires its managers to spend six weeks living in rural areas to generate knowledge about the hygiene needs and practices of the rural poor. This knowledge has resulted in new product ideas (such as a combined soap and shampoo bar) and promotional programs (such as street theatre) for rural markets. These innovations have also been adopted by Unilever subsidiaries in Brazil and other developing countries.

By integrating the concerns of diverse and distant stakeholder groups, RT also holds the potential to improve relationships and build a fund of goodwill with diverse stakeholders, thereby avoiding the wrath of the smart mob. Such goodwill not

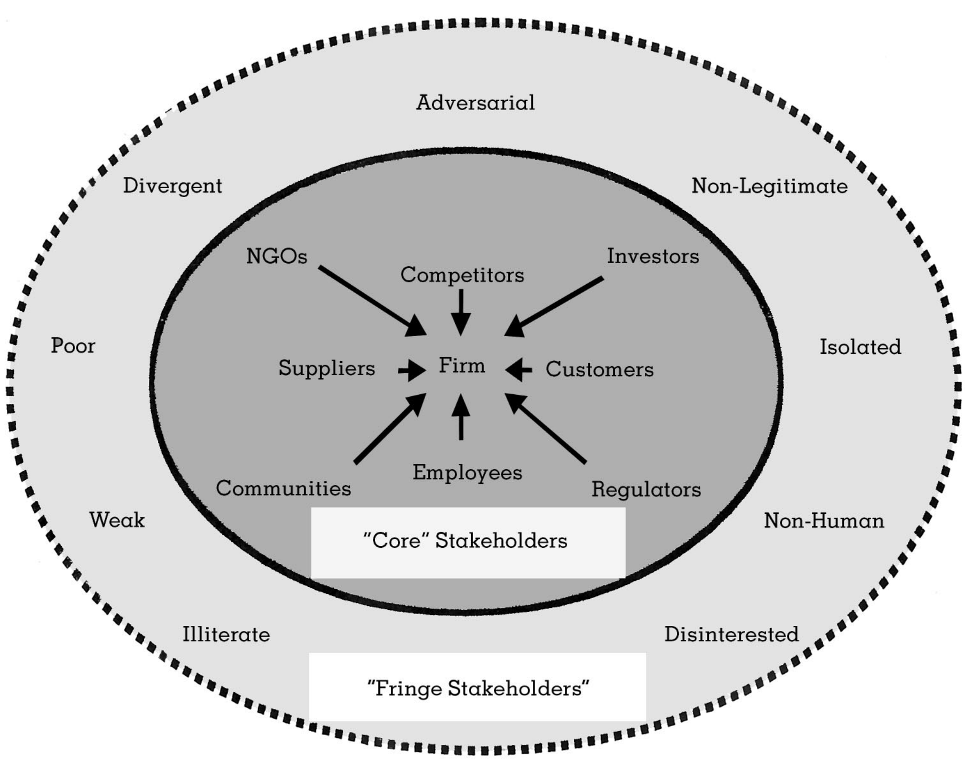

FIGURE 1
Stakeholders: Core and Fringe

only enhances the firm's legitimacy in its current business but also, more importantly, enables it to access knowledge from adversarial or marginal stakeholders at the fringe. RT consists of two subcapabilities: (1) the ability to extend the scope of the firm (fan out); and (2) the ability to integrate diverse and disconfirming knowledge (fan in). These two phases are similar to the concepts of idea generation (divergence) and idea evaluation (convergence) described in the traditional problem-solving literature[21] (see Figure 2).

Fan-Out: Extending the Scope of the Firm

Imagining future sources of competitive advantage requires divergent thinking by managers to identify the unmet needs of both existing customers and new, yet-to-be-served markets. Divergent thinking is also necessary to envision new, disruptive technologies and business models that enable the firm to deliver functionality to existing and new consumers faster, better, or cheaper than competitors can.

Knowledge that can inform such innovation is not only constantly evolving but is also widely dispersed outside the firm within stakeholder groups that may neither be important, salient, nor situated centrally in a firm's network. As the H-P and HLL examples above show, these stakeholders are often at the unseen periphery of the firm's stakeholder network, such as the urban homeless, the rural poor in developing countries, or even non-human (e.g., endangered) species and nature.[22] The ability to include distant voices from the fringe of an organization's stakeholder network enables a panoramic view of a firm's changing external environment. This helps the firm understand concerns of distant stakeholders affected indirectly via its upstream supply chain or downstream disposal of its spent products. To be effective, however, "fanning out" requires the reversal of traditional stakeholder management models. There are two primary avenues for extending the scope of the firm: networking from the core to the periphery, and putting the last first.

Networking From the Core to the Periphery

By identifying parties immediately beyond the core of salient stakeholders, firms can follow the networks of each of these stakeholders to the periphery. For example, when Shell-UK Plc. decided to dispose of its Brent Spar oil-drilling platform in the North Sea, it consulted with a wide variety of stakeholders in the U.K. (including Greenpeace-U.K.). However, it was forced to abandon its plan under pressure from Greenpeace-Germany, which was not considered a stakeholder at the time of the initial decision. By looking at Greenpeace-U.K.'s stakeholder network, Shell-U.K. could have identified Greenpeace-Germany as a concerned stakeholder and become aware of the pressure it could bring to bear on other German stakeholders such as the church, trade unions, small businesses, and finally the German government that voiced its objections formally to the British government.

Similarly, by looking beyond farmers in the United States to the processing and retail facilities

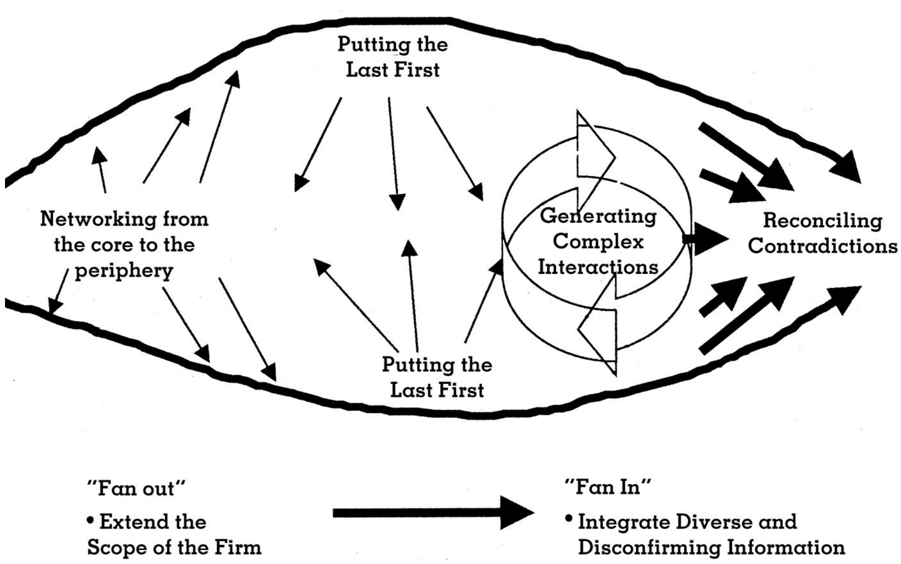

FIGURE 2
Radical Transactiveness

they sold to and the end-consumers that eventually bought from these retail outlets, Monsanto could have identified groups that had concerns about genetically modified foods. Some special interest groups may self-organize spontaneously at later stages to express their concerns regarding corporate actions, and so they cannot be identified at the outset. However, a firm with an ability to continuously network to the periphery will be able to identify and engage such groups as they evolve, before they become militant or unwilling to interact with the firm.

Exhibit 1 lists the steps that a firm should follow for networking from the core to the periphery. The costs of such networking are outweighed by the potential benefits of preserving corporate reputation and operating legitimacy, and avoiding costly project delays that adversarial stakeholder swarms may cause. Stakeholders usually attack large, highly visible firms with corporate reputations and brand images to protect.[23] For such firms, usually industry leaders in size and profits, spending a million dollars on reputation preservation and operating legitimacy usually represents less than one-tenth of one per cent of revenues, a fraction of what they would normally spend on product and corporate advertising.

Exhibit 1: Networking from the Core to the Periphery

Objective: Stakeholder identification and issue intelligence to develop knowledge about stakeholder concerns in order to prevent the formation of adversarial swarms.

Process:

1. Training of boundary spanners (marketing, procurement, communications, new business development, and facility managers) in life cycle assessment (LCA) to help them understand how the operations of the firm, its suppliers, and customers can create negative environmental (e.g., waste, pollution, and biodiversity) and social impacts (e.g., inequitable wages, poor working conditions, depletion of community economic capacity and culture).
2. Boundary spanners in each unit, facility, or SBU engage core stakeholders including suppliers, customers, distributors, local communities, NGOs, and government agencies to identify further networks of these core stakeholders and the possible negative social and environmental impacts of the operations of each stakeholder in the network. They follow this network outward via stakeholder engagement and "snowballing" to identify the remotest stakeholders affected by the firm's supply chain and consumption/disposal of products.
3. A corporate department (sustainable development, new business development, or communications) coordinates information from boundary spanners to develop an ongoing list of fringe stakeholders and their concerns.
4. A corporate task force (including operating and facility managers) develops strategies for communicating with, and addressing the concerns of, these stakeholders before they connect with media, labor unions, political forces, or other powerful stakeholders that can raise the profile of an issue or concern.
5. Boundary spanners in the firm will implement these strategies in collaboration with core stakeholders such as suppliers and distributors. Actions may involve changes in products and services, procurement specifications, recycling and take back of products after consumption, improvement in wages and working conditions at contractors' facilities, and the adoption of pollution prevention and control practices by suppliers.

Costs: Training, managerial time (research, engagement, and coordination), travel, and other forms of operating slack.

Benefits: Preserving corporate reputation, legitimacy, and operating freedom, and preventing costs of delayed projects.

Putting the Last First

A second approach to fanning out is to begin at the fringe by "putting the last first."[24] This requires a conscious effort to completely reverse the rules of stakeholder saliency by identifying actors who are powerless, non-legitimate, isolated, or disinterested with respect to the focal firm. It is extremely difficult for managers in existing businesses to identify fringe stakeholders such as the rural poor, urban shantytown dwellers, or advocates for nature's rights. However, placing managers in operating contexts that are the opposite of their current contexts opens them to hearing stakeholder voices from the periphery. This requires investments such as H-P's "Living Lab" in Kuppam, India or HLL's placing of all employees in poor rural areas for six-week stints.

An example is the Biotechnology Advisory Panel set up by DuPont to consciously seek divergent views from the periphery to help it formulate a more robust strategy for biotechnology development. The company has purposefully sought to include a diversity of stakeholders from India, Africa, and Latin America in its deliberations. It has also invited in environmental advocates such as the former head of Greenpeace International to provide divergent views on the issue. Exposing senior managers and business leaders to radically different perspectives has resulted in significant modifications and improvements to the company's approach to and strategy for biotechnology commercialization. New ideas have been generated for future business models in accordance with the company's push to move away from products based upon petrochemical feedstocks and into knowledge-intensive businesses with a biological base.

As another example, managers of Excel Industries (one of India's largest chemical companies) spend time in poor villages to generate radical new ideas and innovations starting from the bottom up by serving the unmet needs of the fringe. The CEO of Excel Industries asked his managers to avoid prejudices and biases by stating, "Who are you to adopt a village? Go and be a part of it. Let the village adopt you."[25] Exhibit 2 identifies the actions that firms can undertake to put the last first. Once again, the costs in terms of managerial time and effort are likely to be a fraction of what a large firm would normally spend on research and development to generate new ideas and innovations.

These two approaches to extending the scope of the firm might have enabled Shell-U.K. and Monsanto to anticipate the major incidents that damaged their reputations and affected their operations. Fanning out might also have identified creative new strategies for the firms to pursue that might have avoided the problems in the first place.

For example, Greenpeace-Germany's concerns did not emerge suddenly. The organization had begun to voice its discomfort early and openly regarding Shell-U.K.'s plans to dispose of the Brent Spar oil-drilling platform in the North Sea. Similarly, consumer groups in Europe were quite vocal about their concerns relating to the uncertain effects of Monsanto's genetically modified foods. Other stakeholder groups on the fringe included millions of small farmers in developing countries such as India. Regrettably, neither Shell nor Monsanto allowed these voices from beyond the core of their stakeholder networks to reach decision-makers. Shell adopted the classic stakeholder management model that involved proactively identifying all the salient stakeholders (including Greenpeace-U.K.) which were immediately affected by, or could have an impact on, the Brent Spar decision. The company consulted extensively with these stakeholders to arrive at its decision. Yet, the issue proved to be much bigger and more complex and extended beyond just the U.K.

Monsanto followed a similar process of stakeholder management that included consulting with its immediate customers (farmers), regulators, and consumer groups in the U.S. Despite efforts by the company's Sustainable Development Sector (a new unit established by the CEO) to access voices of distant stakeholders, the business decision-makers did not consider consumer groups in Europe or small farmers in developing countries as relevant, legitimate, or powerful, even if their claims seemed urgent.

Indeed, putting the last first might have enabled Monsanto to develop a different business model that met the needs of all its stakeholders. The greatest problems with agricultural productivity and poverty exist among the millions of small farmers in the developing world. Therefore, it might have been possible for Monsanto to focus product development on improving the nutritional quality, pest resistance, and water tolerance of tropical crops such as cassava, rice, and sweet potatoes, among others, that dominate in the developing world, rather than the incremental productivity improvement of industrial-scale corn, cotton, wheat, and other crops which are dominant in the developed world.

Extending the scope of the firm, by reaching out and seeking knowledge from fringe stakeholders, enables managers to suspend disbelief and accept information that disconfirms the existing shared mental models in the firm. Such knowledge can be generated only when managers escape from old ideas and information that confirm the existing dominant logic of the organization. Effective "fan-out" thus does not look for solutions to problems but, rather, focuses on asking the right questions of the right stakeholders to understand dynamic and complex problems that can affect future survival and competitiveness.

Exhibit 2: Putting the Last First

Objective: Identify business contexts that are the reverse of those in which the business currently operates that can generate imagination and ideas about potential new product and business innovations.

Process:

1. Staff managers (Sustainable Development or New Business Development) conduct research around issues of climate change, biodiversity, social equity, ecosystem preservation, human rights, etc., to identify stakeholder jurisdictions that are the *reverse* of their own contexts. The focus would be on those regions and communities that have been heavily disrupted by globalization and industrialization, communities with exploding populations and associated migration to urban areas, lack of education, mobility, communications, basic hygiene, and nutrition.
2. Make it possible for previously ignored or unheard voices to enter the company by inviting reaction, response, or suggestions from the public at large around specific issues through telephone access, email, or online dialogue.
3. Create an inventory of potential sites and contexts where learning can take place for generating ideas for new business models that are sustainable in terms of economic potential, zero pollution, or biodiversity and ecosystem disruption, and enable capacity building in local communities.

Costs: Training, managerial time, travel and other forms of operating slack.

Benefits: Generating radical new ideas for products and services and business models.

Fan In: Integrating Diverse and Disconfirming Information

Once the firm's boundaries have been expanded and divergent thinking has opened up the firm both to new concerns and emerging opportunities for the future, the challenge then becomes one of integrating this diverse and disconfirming information into practical, useable strategies. Having initiated contact with these stakeholders, managers need to build bridges so that intense informal conversations can begin. The transfer of tacit or unwritten knowledge residing in people and their traditions requires intense interaction; it cannot be transferred in large group meetings or during formal negotiations. Practical strategies emerge only after the apparent contradictions between knowledge from fringe stakeholders and the current business model have been reconciled. This often requires a reframing of a firm's dominant logic.

HLL's transformation is a striking example of such a reframing. For several decades, the company's hygiene products were adaptations of Unilever's internationally popular brands, successfully targeted at upper- and middle-class segments of the market. Nirma, a small upstart operation, entered the market in the early 1980s with disruptive products priced at a fraction of HLL's products. Within a short period, Nirma moved up-market from lower-income to middle-income markets, seriously eroding HLL's market share and profits. After struggling unsuccessfully for a decade via price competition and advertising, HLL decided to extend itself into poor rural villages that were not even targeted by Nirma. Insights gained from these radically different markets helped HLL reframe its product-innovation logic from adapting international brands to developing products from the grassroots for poor consumers and moving them up-market to its traditional consumers. This strategy not only helped HLL gain back market share from Nirma but also opened up new markets and helped HLL meet the needs of its traditional markets better.

There are two primary avenues for integrating diverse and disconfirming information into practical new strategies: generating complex interactions and reconciling contradictions.

Generating Complex Interactions

Just as living in a different country allows managers to better identify appropriate product/service modifications in established international markets, spending time in homeless shelters, rural areas in developing countries, or areas where nature has been depleted or devastated provides a radically different physical and mental context to spark the imagination. To be able to absorb knowledge from fringe stakeholders, however, especially those that are adversarial or peripheral to the firm's current operations, managers need to empathize with differences in perspectives. Empathy depends upon deep listening and complex interactions with those possessing divergent perspectives.

As we have seen, HLL generates complex interactions by requiring all company employees to spend six weeks living in rural villages and actively seeking local consumer insights and preferences as they develop new products.[26] The company has also created an R&D center in rural India that focuses specifically on technology and product development to serve the needs of the poor and sources raw materials almost exclusively from local producers. HLL uses a wide variety of local partners to distribute their products and also supports the efforts of those partners to build additional capabilities. By developing local understanding and empathy, and experimenting with co-development through new partnerships, HLL has been able to generate substantial revenues and profits from operating in low-income markets. Indeed, by the late 1990s, low-income markets represented more than half of HLL's business.

In contrast, Nike's failed attempt in the late 1990s to produce an athletic footware product for the booming low-income populations in China and other developing countries can be traced, at least in part, to a lack of complex interaction and empathy.[27] Based upon a relatively low price point ($10–15 per pair), the "World Shoe" was designed as a product that could appeal to the masses who could not afford Nike's top-of-the-line products. In China, Nike relied exclusively on its existing contract factory network to produce the product, utilized the firm's established in-country channels to distribute the World Shoe, and did not develop a context-specific marketing plan for the product. In fact, the World Shoe was displayed side-by-side with the $150 Air Maxx in upscale retail outlets in Beijing and Shanghai. Relying on familiar partners and the existing business model for high-end athletic footware products resulted in the World Shoe struggling to meet its sales goals. The initiative was terminated in 2002.

As Exhibit 3 suggests, operating managers as well as R&D/product development managers should begin intense interactions with fringe stakeholders only after suitable cultural and ecosystem sensitivity training. They should then immerse themselves in radically different contexts to transfer tacit knowledge about the needs of consumers that they do not cater to with existing products. As a result, they will come to understand the potential for, and feasibility of, applying innovative technologies to develop new

Exhibit 3: Generating Complex Interactions

Objective: Close interaction with fringe stakeholders within remote contexts to generate new product ideas and business innovations, and to transfer tacit knowledge.

Process:

1. Cultural sensitivity training of managers for the contexts identified by "putting the last first."
2. Based on the inventory of interesting contexts identified by putting the last first, R&D managers and line/operating managers such as production engineers and product development managers travel to these jurisdictions for 2–4 weeks to immerse themselves in these cultures, to understand consumer needs and functionalities required, and to explore the feasibility of new approaches for meeting customer needs in a radically different, innovative, and sustainable manner.

For example, an American coal-based electric utility will find it hard to imagine future growth trajectories, disruptive innovations, and radical business models in distributed solar power generation without immersing itself in a context where centralized gigantic grids of fossil-fuel-based power generation do not exist. The new products and business models may be applicable not only to these remote contexts but may also be adaptable to the firm's current context.

Costs: Training, managerial time, and travel.

Benefits: Generating competitive imagination for future growth of the firm.

business models and products. For example, Procter and Gamble has launched a pilot venture in rural Nicaragua to help its managers generate creative ideas by immersing themselves in a context where the company currently has no presence, infrastructure, or partners. By doing so, they avoid having the voices from the fringe contaminated by the dominant logic of the marketing model used to serve their existing markets. As the HLL and P&G experiences demonstrate, the costs in managerial release time and travel for generating complex interactions are a fraction of what a large firm spends on marketing research and product development in established markets.

Reconciling Contradictions

Nike was unable to reconcile the apparent disconnect between its current business model and the needs and requirements of the new, low-income consumer it was trying to serve. In fact, designing and producing a lower-cost shoe using the existing business system meant, paradoxically, that Nike failed to reach its target customer. Thus, integrating diverse and disconfirming information into strategy requires reconciliation of seemingly conflicting perspectives. Competitive imagination is sparked only when the organization commits to resolving the contradictions created by the disconfirming information introduced by fringe stakeholders.

Mexico's largest cement company, Cemex, provides an instructive example.[28] Cemex has achieved extraordinary profitability through a shrewd strategy of targeting developing countries such as Bangladesh, Egypt, Indonesia, Thailand, and others in Latin America. The poorest residents of these developing countries represent a special opportunity since they are currently inadequately served, if at all. Moreover, sales to the poor tend to be less subject to volatility based upon macroeconomic conditions. Cemex embarked on a strategy of learning how to tap into the enormous market of low-income customers in developing countries by first studying how to do business with the poor in Mexico.

Poor, do-it-yourself homebuilders in urban slums and shantytowns often take four years to complete just one room and thirteen years to finish a small four-room house. This is because banks and other businesses will not engage with poor residents of informal settlements where the legal status of their property ownership is murky. Haphazard design combined with material theft and spoilage conspire to make home construction for the poor a costly and risky proposition. To reach this market, Cemex had to reconcile these contradictions by creating a new business model. Through its program called "Patrimonio Hoy," Cemex formed savings clubs that allow aspiring homebuilders to make weekly savings payments. In exchange, Cemex provides material storage and architectural support so that homes can be well designed and built in sensible stages. The result is that participants in the program build their houses three times faster, with higher quality, and at two-thirds the cost. Patrimonio Hoy has been growing 250 per cent per year and has enrolled more than 20,000 poor families since its inception. The goal is to reach one million families in Mexico in five years.

Other examples point to the significance of corporate-level initiative in this regard. To help reconcile contradictions and leverage learning, DuPont has designated a senior executive to serve as point person for all new initiatives in the company aimed at the fringe. In this way, efforts of individual project teams can be better coordinated and experience more effectively diffused. Similarly, Unilever has created an international committee to transfer and adapt innovations such as HLL's products and promotion programs to other countries and markets.

As Exhibit 4 shows, reconciling contradictions involves incubating disruptive innovations in a transactive mode with fringe stakeholders. At this stage, radical new ideas and business models

Exhibit 4: Reconciling Contradictions

Objective: Incubating, operationalizing, and implementing radical innovations and new business models.

Process:

1. Coordination and exchange of information in organizational committees that are horizontally (SBUs, functional areas, geographic locations) and vertically (cut across corporate hierarchies) diverse.
2. Incubation of new innovations and business models by setting up task forces consisting of operating managers, R&D engineers, and staff managers, some of whom have experienced the radically different stakeholder contexts.
3. Ongoing transactiveness with stakeholders in radical contexts to test and refine ideas for products, services, and business models to ensure that stakeholder needs are met and their concerns regarding negative social and environmental impacts taken care of.
4. Organizing and facilitating stakeholder dialogues involving line managers, product developers, and technologists in collaboration with fringe stakeholder representatives to develop a specific new product concept, market, or situation.

Costs: Coordination of task forces and ongoing transactiveness or engagement with stakeholders.

Benefits: Generating disruptive innovations in products, services, and business models while addressing the economic, social, and environmental concerns of stakeholders at the fringe and preventing the creation of adversarial swarms.

identified in the previous steps are operationalized and implemented. Such implementation takes into account the concerns of remote stakeholders affected by the firm's operations to anticipate needs and prevent the creation of adversarial swarms.

The integration of diverse and disconfirming information is a creative process involving the design of new products and business models to serve previously invisible needs. This step focuses on the articulation and implementation of practical solutions to the problems and opportunities identified in the "fan-out" stage. The challenge is thus to link both stages of the RT approach together into a coherent process for new strategy formulation and implementation.

Putting It All Together

The creation of the Grameen Bank in Bangladesh provides an excellent example of the approach in action.[29] Over twenty years ago, Muhammad Yunas, then a professor of economics at Chittagong University in Bangladesh, conceived the idea of a bank focused on offering "micro-credit" loans to the poorest of the poor. This business concept was developed as a direct result of personal interactions that he had with poor people in rural villages and shantytowns. Most bankers assumed that laziness or lack of competence were the reasons that so many lived in abject poverty. As a result, they focused their attention on more affluent customers. But Yunas was personally motivated to understand what the poor felt they needed in order to change their lives for the better. Much to his surprise, he discovered by traveling through villages and through extended personal interaction that they were, for the most part, energetic, motivated, and knew exactly what they needed to move forward. In almost every case, this involved gaining access to small amounts of credit to launch or expand small enterprises. Grameen Bank was established to serve this need.

To succeed, it was necessary for Grameen to turn most of the established assumptions about banking (e.g., loan size, need for collateral, contractual enforcement) upside down by focusing on making very small loans to poor women based upon a "peer lending" model where small groups of loan recipients became mutually responsible for each other's credit. The bank's sales and service people visit villages frequently, getting to know the women who have the loans and the projects in which they are supposed to invest. In this way, lending due diligence is accomplished through trust-based interaction and exchange, rather than the mountains of paperwork and legal documentation characteristic of conventional banks. In fact, the individual loan amounts are often smaller than the document-processing charges of most financial institutions.

By the late 1990s, Grameen was lending in excess of $250 million each year to more than 2.3 million poor customers in over 40,000 villages throughout Bangladesh. Even more amazing, it achieved a 95 per cent repayment rate, the highest of any bank on the Indian subcontinent and indeed much higher than banks in the United States. At least in part due to the Grameen experience, there has been a global explosion of institutional interest in microlending over the past decade, including recent entry into this domain by financial giants such as Citigroup.

While it is not a deliberate application of RT, we can learn much from the Grameen experience when it comes to engaging fringe stakeholders for competitive imagination. The approach taken was quite different from conventional models of strategy and stakeholder "management." First, the focus was on "fanning out" to work with distant and marginal stakeholders to identify opportunities for new business concepts, rather than to protect or legitimate existing business practices. Second, trust-based interaction on complex issues enabled the bank and its stakeholders to confront the conflicts and contradictions implicit in their own initial views and positions. Thus, through mutual learning and growth, the integration of diverse and disconfirming information afforded the possibility of "fanning in" to identify strategies and opportunities that did not exist previously.

Together, the capabilities of stakeholder "fan-out" and "fan-in" reinforce each other. By integrating knowledge from fringe stakeholders, Radical Transactiveness has the potential to challenge fundamental business models and frames of reference, leading to new bases of competitive advantage. This capability also helps the firm engage stakeholders in an ongoing two-way dialogue that enables it to anticipate and respond to their concerns instead of experiencing unanticipated conflicts such as those faced by Monsanto.

From Transparency to Transactiveness

Radical Transactiveness helps firms cast a wider, more inclusive net in order to generate competitive imagination about possible future products, services, markets, and business models. As such, it complements other approaches to business creativity such as increased employee diversity, lateral thinking, and conventional R&D and technology management. For example, in recognition of the disruptive innovations which have emerged from HLL and other grassroots initiatives, Unilever has begun adding managers from these developing-country subsidiaries to its board of directors and top management committees at the head office. Such diversity is now paying dividends in the form of increased innovation in conventional R&D and product development.

The RT framework proposes that firms should "fan out" to identify fringe stakeholders by following the linkages of existing stakeholder networks to the periphery, going beyond the traditional logic of stakeholder salience to consciously seek out remote stakeholders that are non-legitimate, non-urgent, and powerless. Networking from the core to the periphery helps to identify emergent stakeholder concerns in order to prevent the formation of adversarial swarms. Putting the last first reverses the logic of the established business and seeks to generate imagination and ideas about unmet needs, potential new products, and business innovations.

The capability of "fanning in" requires building the managerial capacity for empathizing with diverse and disconfirming stakeholder perspectives; understanding the culture, thought processes, and language of distant stakeholders; and acquiring the capability to reconcile the contradictions between the existing business model and the views of fringe stakeholders. By generating complex interactions, firms can develop the intimacy and trust needed for honest two-way exchange to occur between managers and those on the fringe of the company's established stakeholder network. To convert this insight into practical business strategies, however, the contradictions between current reality and the needs and requirements of the new context must be reconciled.

RT helps the firm avoid unanticipated conflicts with Internet-connected smart mobs that have emerged over the past decade. It also aids in the identification of new strategies for a smarter form of globalization which seek from the outset to address social and environmental problems. This means complementing capability in radical *transparency* with Radical *Transactiveness*. Radical transparency involves going beyond statutory requirements to a full and open disclosure of the firm's current activities, strategies, and impacts. This has become increasingly commonplace over the past decade.[30] Radical transparency is targeted primarily at managing core stakeholders—those who can directly affect the current business by virtue of their power, urgency, or salience. It promotes license to operate by seeking "permission" from those interests and groups that might otherwise withhold resources, approval, or legitimacy.

Unfortunately, in a globalizing and interconnected world populated by tens of thousands of NGOs and activist groups, it becomes increasingly perilous to depend upon radical transparency alone. The experiences of organizations such as Monsanto, Nike, Shell, and the World Trade Organization demonstrate that fringe stakeholders at the periphery with no direct connection to the organization's activity can have a significant impact on its ability to execute. Moreover, future competitiveness depends increasingly on the creative destruction of existing business models via disruptive innovations that are at the same time socially and environmentally responsible.

In short, it appears inevitable that all large firms will eventually have to adopt RT approaches to ensure survival by engaging stakeholders that are currently below their radar screens. The question is which firms will preemptively develop this capability as the path to competitive imagination for the future.

Endnotes

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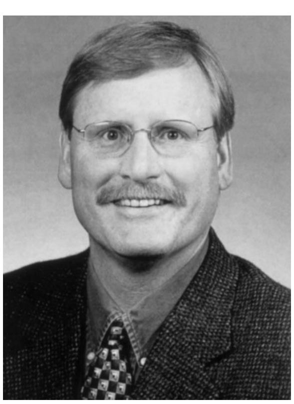

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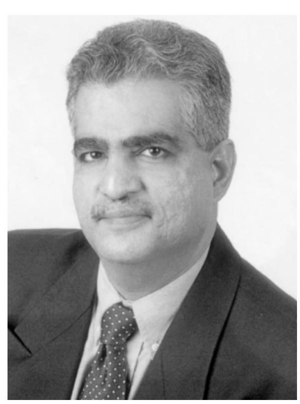

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