EXPLORING THE ORGANIZATION AS A TRANSITIONAL OBJECT:

A STAKEHOLDER APPROACH TO STRATEGIC PLANNING AND MANAGEMENT

Charles B. Finn
Doctoral Thesis
Department of Management Science
University Strathclyde
1997

FOR

Mary, Geneva and Anders

"You were all there for me"

ABSTRACT

Organizations are originated and continue to be successful as transition mechanisms which interested and powerful actors use to come together in order to define problems, issues or opportunities in a manner that increases potentials for an agreed strategy and actions that lead to successful outcomes. The three components of this process are the potential problem, issue or opportunity, the composition of interested and powerful stakeholders who comprise the organization and the universe of possible solutions that are both limited and predicted by the former two. One approach that helps to ensure the organization is properly comprised as a transitional link between the problem, issue or opportunity is a set of exercises that produce a stakeholder influence map. These exercises are designed to identify the boundaries of the problem, issue or opportunity and the set of stakeholders whose combined interest and efforts will increase probabilities for a preferred, successful outcome. This thesis explores the utility of these exercises and begins to develop the organizational theory supporting them.

The process is then evaluated against three other processes that use the stakeholder approach in a case study. The intent is not to demonstrate which approach is better. Rather to give the reader a good understanding of how these approaches work so they can evaluate what would work best for them.

Declaration of Author's Rights:

Acknowledgments

Many people and incidents during my life's journey has led me and contributed to the production of this thesis. The turbulent times of the 1960s and 1970s, with the Viet Nam war and my subsequent activities as a draft counsellor and community organizer allowed me to experience organizations at the national, state and local levels as a participant and planner. My activity in political campaigns gave me experience and insight into strategizing and gathering organizational will. My economic research into the financial conditions of low income and minority communities allowed me to appreciate just how difficult it is to be successful in terms of strategic planning and organizational design. And the last 8 years of work in the area of management science with the related consulting have allowed me to experiment and theorize about systems and actions so I could begin to think comprehensively about these conditions. To a certain extent, I am a creature and product of my times and circumstances, which have all contributed to allow me to reflect on them. The "status quo" has never been an obstacle for me.

But experiences, places and activities do not matter as much as the people who have contributed their insights, advice and support to my evolving thinking and activities. There simply is not enough time or space to allow for acknowledgement of those people, so I will restrict this list to the ones who have directly contributed to this thesis. My deepest thanks have to go to a team of people I have had the privilege of working with for the past eight years. John M. Bryson, Colin Eden, Fran Ackermann and I have carried on a challenging dialogue that has carried my thinking in these areas so along far that I cannot imagine where I would be without them. John in particular has been my close colleague, confidant and great friend who has gently directed me when he thought I was down the wrong "track" and allowed me to participate with him in strategic planning experiences that I would have had no opportunity without him. He truly is a generous and thoughtful person.

Colin Eden has acted ably as my advisor through the years of this thesis exercise which have included my contracting cancer and the subsequent surgeries. Any advisor would certainly have been justified in giving up on a student, given the circumstances and roadblocks we have been through. However, Colin persevered and offered varieties of incentives ranging from encouragement, advice, commiseration and the occasional "kick in the pants" I needed to finish this thesis. Over the years, our relationship and intellectual discourse have gone beyond one of friendship to one of family. I am not sure which one of us is older, but we are brothers.

One other person who has directly contributed to this work is my former Associate Dean, friend and mentor, Royce Hanson. Royce has moved on to a Deanship in Texas and probably doesn't even know about the thesis. Yet, he is a practitioner/ scholar who gave me the vision and assurance that allowed this practitioner to honour the roots of his knowledge. These roots are within the community and organizations engaged in actions to promote change and constantly struggle for the common good.

Finally, I must acknowledge the sacrifice Mary M. Finn, my wife and Geneva E. and Anders G. Finn, my children have made to this cause. I have no idea how many nights and weekends were sacrificed so I could concentrate on this work, but that time came mostly from the amount I had to share with them. My deepest love and appreciation are not enough, but they are all I have.

C. B. F.

CONTENTS

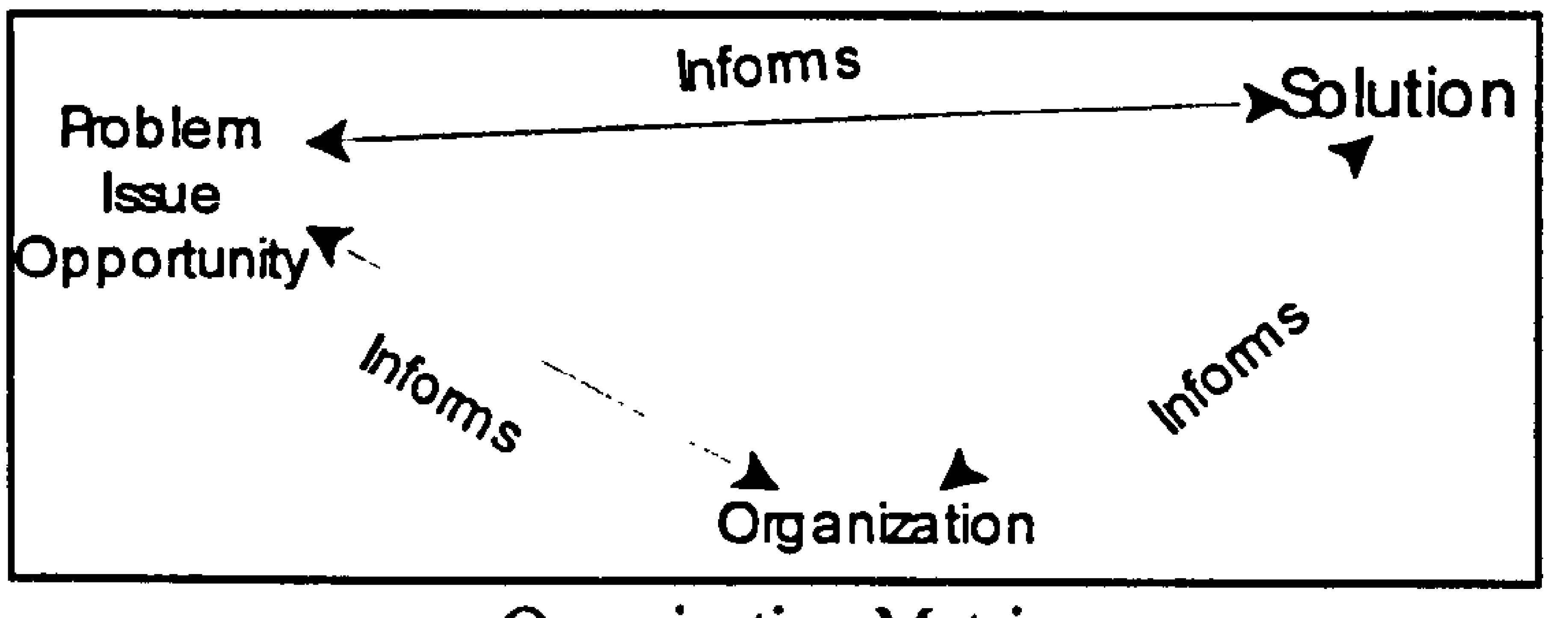
Thesis Overview

The major difference between my approach and the three other stakeholder approaches examined in this thesis is based upon different assumptions of composition and boundaries of an organization. My approach is founded on a different understanding of why and for what an organization exists and functions. I argue that organizations originate as a response to perceived problems, issues or opportunities to pursue an agreed upon, preferred solution. Here I shall argue that the primary reason that organizations exist is to address problems, issues or opportunities. As these stimuli change, the question of what an organization should address is based on the problem or issue or opportunity rather than upon a historical artifact that the organization exists to address in a different context. The stakeholder approach developed here is based on these assumptions and therefore examines potentials for developing an organization that is designed to address a particular problem, issue or opportunity.

Within the field of management science, the idea that stakeholder identification and stakeholder relations are an important component that should be taken into account by organizations is relatively new. Freeman stated that the first use of the term "stakeholder" in the management literature was 1963 and his book "Strategic Management: A Stakeholder Approach" (1984) is widely considered the first comprehensive work in the field. This publication ignited a whole series of discussions and writings regarding stakeholder issues and approaches, those which are recent and promising will be examined in this thesis. I want to note at the very beginning however that the concept of stakeholder relations and management are not new phenomena as Freeman posits. Stakeholder analysis, relations and management have existed in some form as activities within organizations for untold years. Stakeholder analysis, relations and management are founded on the proposition that organizations and individuals do not exist in a vacuum. Most strategies and actions involve other actors both within and without the organization that must be taken into account in order for an individual or organization to be successful. What is new is the discovery by some management science researchers and practitioners of the relative importance of stakeholders in terms of how organizations make sense of and deal with the world around them (Bryson, 1995, Eden, 1996, Eden and Ackermann (forthcoming) (the stakeholder parts are included in the 1996-7 Strathclyde Business School, General and Strategic Management Strategic Intervention Issues Reader), Finn, 1996, Freeman, 1985, Nutt and Backoff, 1992. I do not mean to make light of the naming of this phenomena, but want to establish this event as a recognition by management science of longstanding social and organizational processes that have now been validated utilizing qualitative research techniques.

Given the recent introduction of stakeholder analysis, relations and management to the field, it should not be surprising that there is a plethora of stakeholder definitions and prescriptions for organizations. Indeed, there is still serious debate regarding who should be labelled as stakeholders, as well as how organizations should relate to them. It should also be noted that mainstream management practices, both in the private and public/nonprofit sectors, have not adopted stakeholder approaches in their general operations. Even researchers and practitioners who believe in a stakeholder approach often find it difficult to get organizations to seriously consider the stakeholder component in a formalized manner, (Bryson, 1995, Mitroff, 1983).

I suggest in this thesis that the difficulty organizations have in utilizing these approaches is due to a fundamental flaw in the definition of an organization. That leads to a biassed behavioural result. The question I pose is: what would the eventual result be if practitioners approached a problem, issue or opportunity with no assumptions of what comprised an organization? The presumption then, is that the initial issue, problem or opportunity, as it originally stands, defines the organization necessary to deal with it. In other words, I argue that problems, issues and opportunities exist and that generally, stakeholder relationships form or coalesce from within and/or without existing entities that then become the organization which will further define the issue or problem and work towards a solution. The solution developed by the organization is also bounded or constrained by the original problem, issue or opportunity. This implies that a multi-variate dynamic exists that an organization must first comprehend and then negotiate in order to succeed.



Organization Matrix

Given the need to first define the organization based upon the perceived problem, what stakeholder approach would help to determine the composition and boundaries of an organization and how would this approach affect the outcome? Other stakeholder approaches take differing positions regarding stakeholder rights, management responsibilities to stakeholders and the use of stakeholder techniques as a management tool, which will be examined in this work.

One observation that can be argued for all the stakeholder approaches examined herein is that regardless of which approach (or combinations thereof) are used, the result will most probably be better than if they were not employed. However, my intent is to not only develop a process that is powerful and informative, but to deliver a process that can be employed in an organization with little or no external facilitation. One of the major motives behind my first interest was to develop a process that would allow low income community organizations to successfully convene and plan when they have few resources to employ outside help. These organizations often are pitted against private and public sector organizations with sophisticated strategists, who have a distinct advantage over under funded community efforts. While my approach is not yet tested and refined to the point where I feel confident in promoting it as such a solution, it is my ambition to make it so. NOTE: I intentionally use the phrase "problem, issue or opportunity" throughout this work to identify the potential condition that an organization might be designed to address. This is to continually remind readers that organizations face all types of conditions which they must respond to by organized planning and action to produce preferred solutions.

NOTE: The terms group and organization are used throughout the work in a manner which frankly, can be confusing. This is because there is a great deal of confusion about what they are. In many cases, group and organization mean the same thing for a group can be understood to be an organization. Generally, members make up a group and groups belong to an organization. But a group can also be a subset of an organization and an organization can itself be a member of a group! Both Schein (1985) and Louis (1983) discuss this same problem. I would suggest the reader defines the term as it is used in the context it is found. NOTE: But it gets even worse... a group of organizations might be called a community. Indeed in this text, the term community is used in two different ways. The first is to define an agglomeration of cultures that is designated as a location. An example of this in this work is the community that is comprised by the city of Boston. The second and more common use of the word herein is to designate a particular perspective represented by a group of organizations who might be defined as acting in behalf of the "public good." Therefore, the term: from the "community perspective" identifies a group of organizations generally consisting of neighbourhoods and government whose interest is the general well being of those domains.

THESIS DESIGN

The writing follows a five-step progression, designed to be approached as parts of the whole, yet somewhat complete in their own right. The first section is the research context where the author defines his interest and work to that point as more member, planner and facilitator than researcher in terms of strategic management and planning. The intent is to give the reader an informed starting position for the approach as it was originally developed from a combination of experience, reading, discussion with colleagues and informed research. The case discussed was sort of a "breakthrough" for the writer in that it established a great deal of his thinking and assumptions.

Section two represents the journey taken, utilizing action research methods to begin to develop some grounded theory regarding how and why the approach developed above appears to work. The work of other writers is drawn upon to further understand, refine and justify the process. In addition, three other processes utilizing stakeholder approaches are developed and critiqued.

Section three sets out the stakeholder approach developed and the potential theory supporting it. This section stands on its own regarding instruction for using the approach. The method used is to illustrate the approach in its basic form and build layer upon layer until it is both complex and complete.

Section four is an analytical comparison of the approach to three other approaches. An actual case which the author was involved in is employed as the playing field. The case is developed utilizing critical incident analysis to establish performance criteria for the four approaches then can be evaluated against.

Section five is the conclusion, which sets forth comparisons and observations regarding the four stakeholder approaches and reflects upon them. Finally, there is discussion of avenues for future research.

Note: Two terms whose definition needs some elaboration on are method and approach. Method is used to when the discussion applies to some type of analysis. For example, one method of analysis used in the thesis is action research. Approach is used to identify a process being utilized. For example, there are four stakeholder approaches being applied in this thesis. This does not necessarily connote that the four approaches are not methods as they are employed for analysis.

Chapter Design

Each chapter begins with an introduction which gives an overview of what is contained within the chapter along with some expectations regarding what the reader will be able to do with the information. The corpus of the chapter is then delivered. Finally, a conclusion is given that briefly discusses what was presented in terms of a learning "deliverable" from the chapter and introduces the next chapter from that context.

A Guide for those who might want to approach the material differently

If the reader is interested in just learning the process, I would suggest going directly to section three first. At that point, a decision could be made to look further by either delving into chapters eight and nine if further elucidation is needed. If there is a general interest in what the other three approaches look like, I would suggest chapter 13 as a good introduction with further reading in chapters four through six. Finally, I would encourage the reader to investigate chapter fourteen as it discusses the opportunities opened, but yet to be examined by this research to date. At least for me, the frontier is an exciting place as we struggle to understand what organizations are today and what that could mean about tomorrow.

The Document Flow Diagram

The diagram on the next page is a directed graph that illustrates the five sections of the thesis and how each chapter flows into and supports the others as they are introduced above. This thesis is not a strictly linear document, with certain chapters informing others that are not placed immediately after. For example, the three chapters that describe and critique the three stakeholder processes presented other than my own, directly contributed to my starting method in chapter two as well as chapter seven and thirteen.

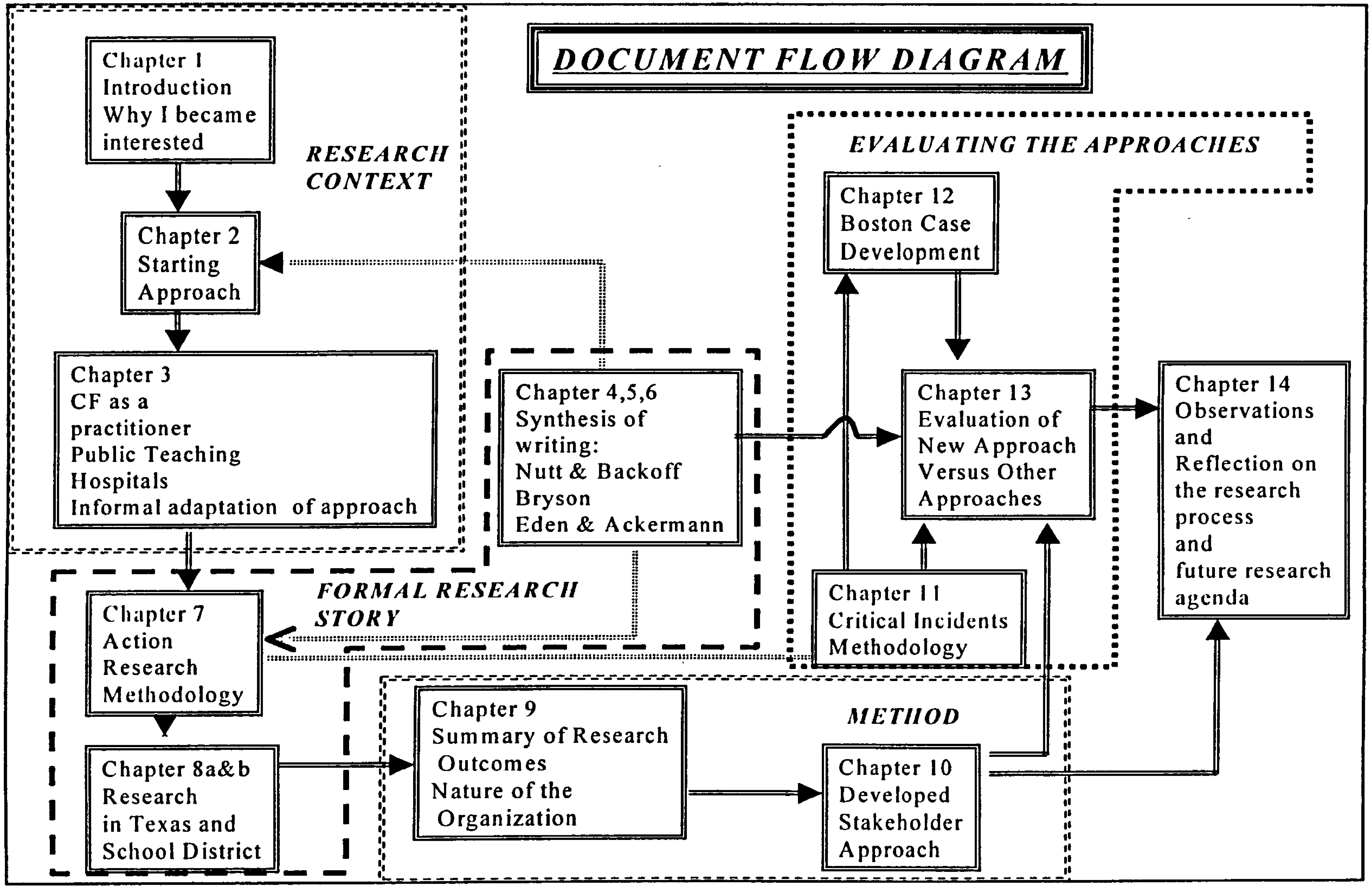


Figure 1.1 (Map Legend on following page)

MAP LEGEND:

- Arrows are used to connote one-way relationships to indicate direction, where one part of the writing informs, emerges from or follows another.
- No arrows represent relationships that are related, but no discernable information flow is alleged.
- Dotted lines identify paths where one body of the writing <u>informs</u> another. For example, the three stakeholder approaches discussed in chapters four, five and six inform the discussions in both chapters two and seven.
- Solid lines represent paths of information flow that are directly related. For example, chapter one leads to chapter two, which leads to chapter three...
- The assorted dotted and dashed boxes around groups of chapters represent the sections of the thesis.

SECTION ONE

RESEARCH CONTEXT

This section is designed to introduce the reader to the context of certain problems I faced during my previous years of practice as researcher, planner, facilitator and member of various efforts in the public sector to understand and devise community solutions. During that time, I have observed and applied many strategic planning and management approaches as I tried to produce processes that would contribute to a successful result. Indeed, I had come by a process through a series of "trials and learning," in a "quasi" research context that appeared to have a potential to positively affect organizational and group process in a manner that seemed to increase possibilities of a successful solution. By quasi research, I mean that I had attended to the literature and utilized an approach that was grounded in experience (my own and others) and insight. However, I had not applied techniques to setup or evaluate the approach in a manner that could seriously be considered research.

This section introduces that approach, presents a case where the approach was used and contemplates the result. Chapter two describes the approach that I had first devised and is discussed in its final version in Chapter ten. Chapter three gives the reader a good understanding of how the process works in the real world, with results and discussion of why the process is helpful.

Chapter 1

INTRODUCTION

Introduction

This chapter sets out the history and context that brought me to investigate the fields of strategic management, planning and management under the rubric of exploring the potentials for organizational enhancement and change. A discussion is developed regarding the path this thesis takes to accomplish the objectives that will hopefully lead the larger goal of organization and community empowerment. And some hint of further challenges is given.

How My Interest Developed

Over the past twenty-two years I have worked with many public and nonprofit agencies, trying to help them understand their environment and devise options for success. For the first fifteen years of this period, I was engaged as a community organizer and leader, as well as an economist. During this time, I was involved in many research projects and large community events that while they would be termed successful, did not in my opinion reach their full potential, given the resources and involvement invested in them. For example, a colleague and I were the principal researchers for a newspaper series in Atlanta, Georgia. The series examined the activities (or lack thereof) of banks in low income and minority communities of that city. The findings were that the banks' actions had directly led to a discriminatory effect in those communities, which was quite damning. The series received national attention and garnered a Pulitzer Prize and hearings in the United States Senate, which led to a flurry of attention in those communities by the banks. Although that might seem to be a successful solution, it turned out to be much less than that. The banks entered communities that had no real experience with them as indeed, the banks had no cultural experience to inform them. The result was that hundreds of millions of dollars were pushed into people's hands who certainly needed them, but had no experience regarding how to use them. The result was that much of the desperately needed resources were poorly invested by both the banks and the people, with resulting default rates of almost fifteen percent (15%) where less than three percent (3%) was the norm. Certainly, no one wanted to see the resources wasted and no one wanted to see people first set in a home and then evicted. And even worse, the loss rates were then used by the banking industry as excuses as to why they had discriminated in the first place! So, the very effort and research to help remedy a problem were then used to excuse it...

I had similar (but not nearly so devastating) experiences in Detroit, Michigan and Boston Massachusetts. But my intent in developing the research approach in Atlanta, Georgia had been twofold. First had been to expose the discriminatory effect by the bankers and to begin the process towards a remedy. Second had been to develop the analysis in such a manner that it could be taken on by community organizations themselves so they could proceed on their own with it. I realized from the beginning that if the analysis was left only in the hands of trained economists and mathematicians, it would have only minimal impact as only a few cities would be examined due to constraints on research funding and interest. Simply put, the only way a successful national impact could be attained was to place the diagnostic tools within the reach of the communities themselves, which is what was accomplished.

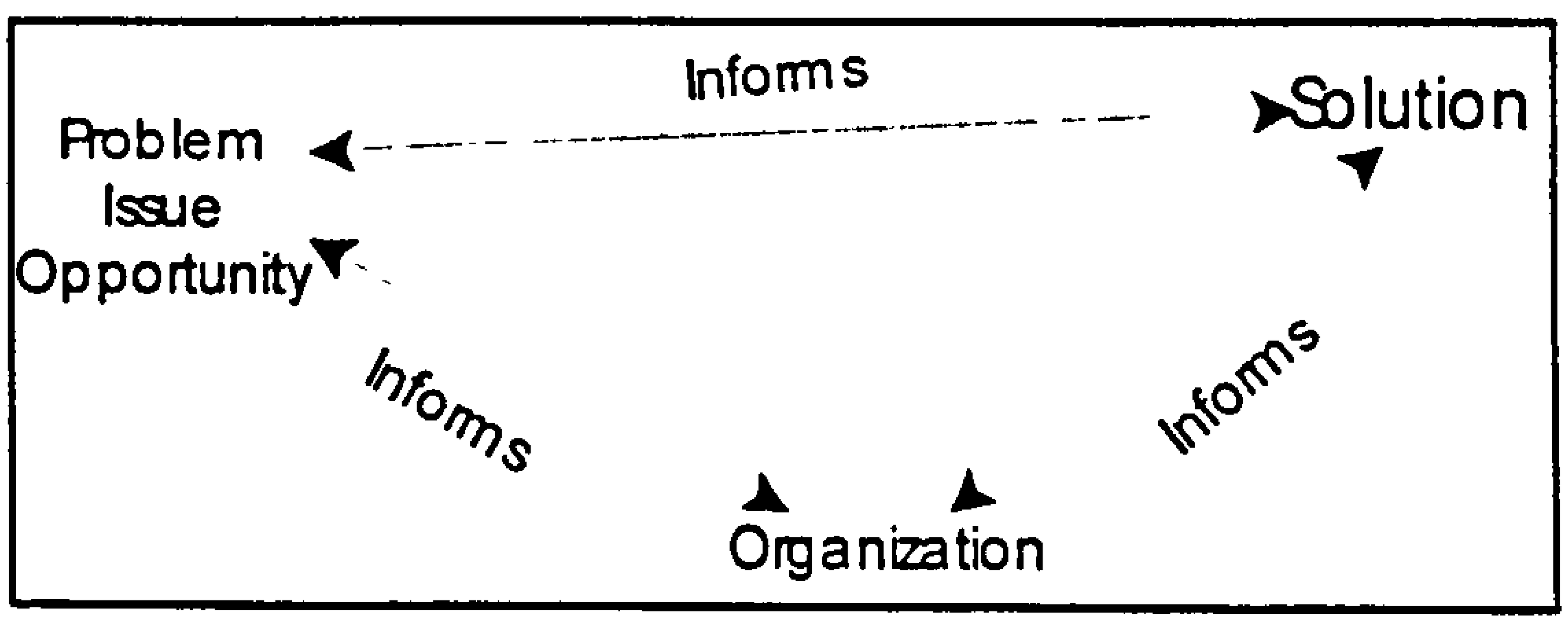
However, I was now faced with what I considered to be an ethical dilemma. While the research approach was replicable by community groups and was used across the country, these groups were experiencing similar outcomes where it was clear that a lot of resources were being poorly utilized and the net result was not nearly what it could be. In essence, a great tool had been developed to unearth a problem, but no similar process for a solution was at hand, which resulted in resources waste and human suffering that should not have occurred. At that point, I became convinced that developing and propagating tools that defined a problem without some process that would help communities toward a solution was not enough. In fact, it was a disservice.

Given this frustration, my research interests in the past seven years have shifted from examining what effects the activities' organizations have on communities to how organizations can be effective within a community. With this new focus, it became readily apparent to me that I had been involved in several large community events which, in retrospect, would have greatly benefited from the utilization of stakeholder process approaches. In particular, an episode regarding changes in the approach to discrimination and banking in the city of Boston, Massachusetts, USA demonstrates ably how certain stakeholder approaches could increase potentials for success for the organizations involved.

My initial entries into these areas were as a student attempting to discover processes that would help solve the problems listed above. I investigated various areas of discussion and research regarding community organizing, the political science of organizations, and the effect of religious organizations on the community, before settling on the management science area. By that time, I had partially devised the stakeholder influence approach and wanted to make a serious attempt at developing a rigorous, grounded set of tools that would benefit the community. This led to my application to the PhD program five years ago and my subsequent investigations.

The objective of this thesis then is to comparatively explore the potentials for utilizing existing stakeholder approaches for strategic planning largely by public and nonprofit organizations with a process which I shall develop based upon a revised definition of the concept of the organization itself. This will be accomplished by deriving a definition of the organization based on learning derived from experiences in using stakeholder techniques and examining the recent historic evolution organizations have undergone.

I define an organization as a transitional object that first comprehends the problem, issue or opportunity facing the organization, which is bounded or constrained by the possible solutions. The organization then negotiates a set of agreed upon actions with stakeholders that leads to a successful, agreed upon solution, based upon the power, relationships and interests of the various stakeholders involved. These stakeholders exist both within and without the organization. As there are many combinations of stakeholders and relationships that could be developed that would lead to different definitions of the problem, issue or opportunity and would also lead to different solutions and potentials for success, this can be considered a multi-variate problem that is dynamic.



Organization Matrix

External stakeholders influence both the problem, issue or opportunity, the possible solutions and potentials for success regardless of the existence of the organization. Internal stakeholders and relationships between external and internal stakeholders influence the definition of the problem, issue or opportunity in terms of the organizations itself, which informs the actions undertaken towards a preferred solution, with increased potential for success. This defines the multi-variate dynamic that an organization must first comprehend and then negotiate in order to succeed. Therefore, an organization exists as a transitional object that comprises various combinations of stakeholders (both external and internal) and the relationships they employ to first define and agree upon the problem, issue or opportunity and then to incorporate agreed upon and supported actions that both enhance the potentials for and predict and agreed upon solution. The process I have devised for the discovery and negotiation of stakeholders and stakeholder relationships as the vehicle that allows an organization to both define the problem, issue or opportunity and to move towards a preferred solution with greater potentials for success in itself defines the organization necessary.

These premises will then be tested by applying current stakeholder approaches to the "Boston banking episode" and extrapolating results based upon identified shortcomings in the process as it happened. These results will then be evaluated by common criteria that were developed to evaluate the differences between the approaches and their potentials to enhance the intended result of the actors involved.

The path I will follow in this thesis is to:

1. Set the context for my interest (this chapter).
2. Set forth my original stakeholder approach (chapter two), and present a case where it is used (chapter three).
3. Examine and critique the three pre-eminent public and nonprofit stakeholder approaches (chapters four, five and six).

4. Develop the methodology for evaluating stakeholder approaches based on action research method I used (chapter seven) to examine the cases presented in chapter eight.
5. Make the case for a stakeholder approach based upon a revised definition of an organization and discuss why these approaches are even more important today and present my approach (chapters eight, nine and ten).
6. Develop a methodology (chapter eleven) used to examine the Boston case as it happened in terms of stakeholders and discuss process failures (chapter twelve).
7. Develop the methodology to evaluate the four stakeholder approaches and to apply those approaches to the case from the Boston Redevelopment Authority's perspective and evaluate the results (chapter thirteen).
8. Discuss possible directions this research could take (chapter fourteen).

(see figure 1.1)

The overall objective beyond this thesis remains the same however. That is to develop processes that help organizations to realize and seek solutions for problems, issues or opportunities that are both important to them and they are entrusted to undertake. And to build these processes so they do not require (to the extent this is possible) outside researchers and consultants. This is not an objective that will put people like me out of work. Rather it will allow the countless groups and organizations who lack the resources to hire expensive help the opportunity to proceed in a fashion that is efficient and rewarding.

Conclusion

The reader should have an understanding of how this thesis fits into the scheme of developing methods that will allow organizations and communities to more successfully understand, plan and manage their situations. Within this context, the chapter two sets out a method for helping organizations understand the stakeholders involved and how their perspectives can help in the development of a successful solution.

Chapter 2

Starting Method

Introduction

This chapter describes the stakeholder development and influence mapping approach as I had originally devised it. The intent is to present a concise description of how the process works with embellishment employed only where it is helpful to understanding. After reading this chapter, the reader should have a good understanding of how the process works and may even be able to employ it. The approach employs two, general process steps. First is the process of developing a list of stakeholders and then identifying their interest. Second is the process of exploring interests and the power of relationships stakeholders have in terms of generating a greater potential for a successful solution. The objective being to develop common interests and commitment, out of which will emerge a common solution that stakeholders will "own."

The Stakeholder Identification and Influence Mapping Process

Process: Stakeholder Identification

This process was first developed by Bryson (1988) and modified by the author to ensure consideration of the problems of stakeholder inclusion. The modification is a variation of stakeholder identification first advocated by Freeman (1984).

This process requires stakeholders already at the table at the initiation of a process to explore potentials of a problem, issue or opportunity to identify other potential stakeholders. In this context, a 'stakeholder' is defined as any person, organization, community or government that is affected by or can affect the deliberations of and potential solution to the issue. Members of the group are asked to "brainstorm" a list of possible stakeholders based on the stakeholder definition by listing individually all internal and external stakeholders who might be involved in the problem, issue or opportunity (Bryson, 1995, Nutt and Backoff 1989). An 'ovals' or 'snowcard' process (Bryson, Ackermann, Eden and Finn, 1995, (included as Appendix C)) is then employed where members of the group are broken into sub-groups that allow for full discussion. Generally, the sub-grouping rationale is to produce relatively homogeneous subsets of the group or organization at large. The stakeholders' names produced from the brainstorming process are then written on small oval cards (about 15 CMS wide, 10 CMS high) and placed upon a wall. The subgroup format is used only if the membership of the meeting exceed the requirements for small group interaction, which is commonly no more than 7-9 members. Members then develop categories of stakeholders by grouping them on the wall. This begins to reveal the larger context of the issues they would be interested in. A descriptive sentence of the identified categories is then developed that further defines selected stakeholders as to why they would be involved. Table 2.1 below is a typical instruction set used with this process.

STAKEHOLDER BRAINSTORMING

- AS AN INDIVIDUAL: ON A SHEET OF PAPER, LIST ALL STAKEHOLDERS -WHO- FROM YOUR PERSPECTIVE, SHOULD BE CONSIDERED WHEN ADDRESSING THIS PROBLEM
- RANK THE TOP TEN STAKEHOLDERS YOU THINK SHOULD BE CONSIDERED
- ON THE SNOW CARDS PROVIDED, LIST ONE STAKEHOLDER PER CARD YOUR TEN STAKEHOLDERS (write large enough to be legible from 8 feet)
- ASSEMBLE WITH YOUR GROUP AND TAPE YOUR SNOWCARDS UP ON THE WALL
- SELECT STAKEHOLDER SNOWCARDS THAT ARE THE SAME AND KEEP ONLY ONE
- ARRANGE THE REMAINING SNOWCARDS INTO CATEGORIES OF SIMILAR STAKEHOLDERS
- CREATE ON A SNOWCARD, A DESCRIPTIVE SENTENCE OF THE STAKEHOLDER CATEGORY

Table 2.1 Stakeholder Brainstorming Procedure

Members are then asked to evaluate the problem, issue or opportunity from the perspective of each category of stakeholder, and then to list strategic options that:

LIST EACH STAKEHOLDER CATEGORY ON A SEPARATE FLIP CHART SHEET. FOR EACH STAKEHOLDER CATEGORY LIST FROM THE STAKEHOLDER'S PERSPECTIVE WHAT OPTIONS:	
•	WOULD ENSURE CONTINUATION OF ACTIVITIES THE STAKEHOLDER WOULD APPROVE OF
•	WILL WORK TOWARD SOLUTIONS TO PROBLEMS THE STAKEHOLDER PERCEIVES
•	WILL TEND TO AVOID POTENTIALLY ADVERSE CONSEQUENCES GENERATED BY THE PROBLEM

Table 2.2 Stakeholder Issue Generation

The entire group is then reconvened. Categories, evaluations and strategic options from each subgroup are presented and integrated with the work of the other subgroup as it is presented. The result is an agreed upon (consensus) set of stakeholder categories and strategic options by the group at large. The output from this process is recorded and a printout of these groupings and related strategic options becomes part of the record for the group and possibly, the affected stakeholders. By insisting that the group itself explicitly consider 'who' is involved and 'why,' helps to employ the full potential of the perspectives of affected stakeholders. This helps to further define the issue and ensure the process does not fail due to lack of stakeholder inclusion.

Process: Stakeholder Influence Mapping

A second step to the identification process, is Stakeholder Influence Mapping, which further develops stakeholder definition and also gives strategic direction to the evolving initiative. I developed this approach during 1990-1991. It represented an attempt to understand relationships between the organization, the problem, issue or opportunity and affected stakeholders. My objective was to increase the possibility of developing solutions that had higher potentials for success as they took into account stakeholders' perspectives by examining both individual and combined power generated by influence relationships. This procedure involves a process of 'targeting' stakeholders within the context of the organization and problem. Members of the subgroup are asked to generate a subset of identified stakeholders that have some perceived level of relevance to the process (members are asked to select the top ten (or more) most important stakeholders from their perspective). The names of these key stakeholders are placed upon ovals located on a wall, using a defined central point as the place to position the most important stakeholders. By definition those identified near the centre are the key and possibly internal stakeholders to the organization addressing the problem. The interest and power of the rest of the selected stakeholders, as evaluated by the group, are indicated by the relative distance they position them from the centre and the clusters of stakeholders they develop (Figure 2.1). This focus on power and interest is similar to Eden and Ackermanns. (1997)..

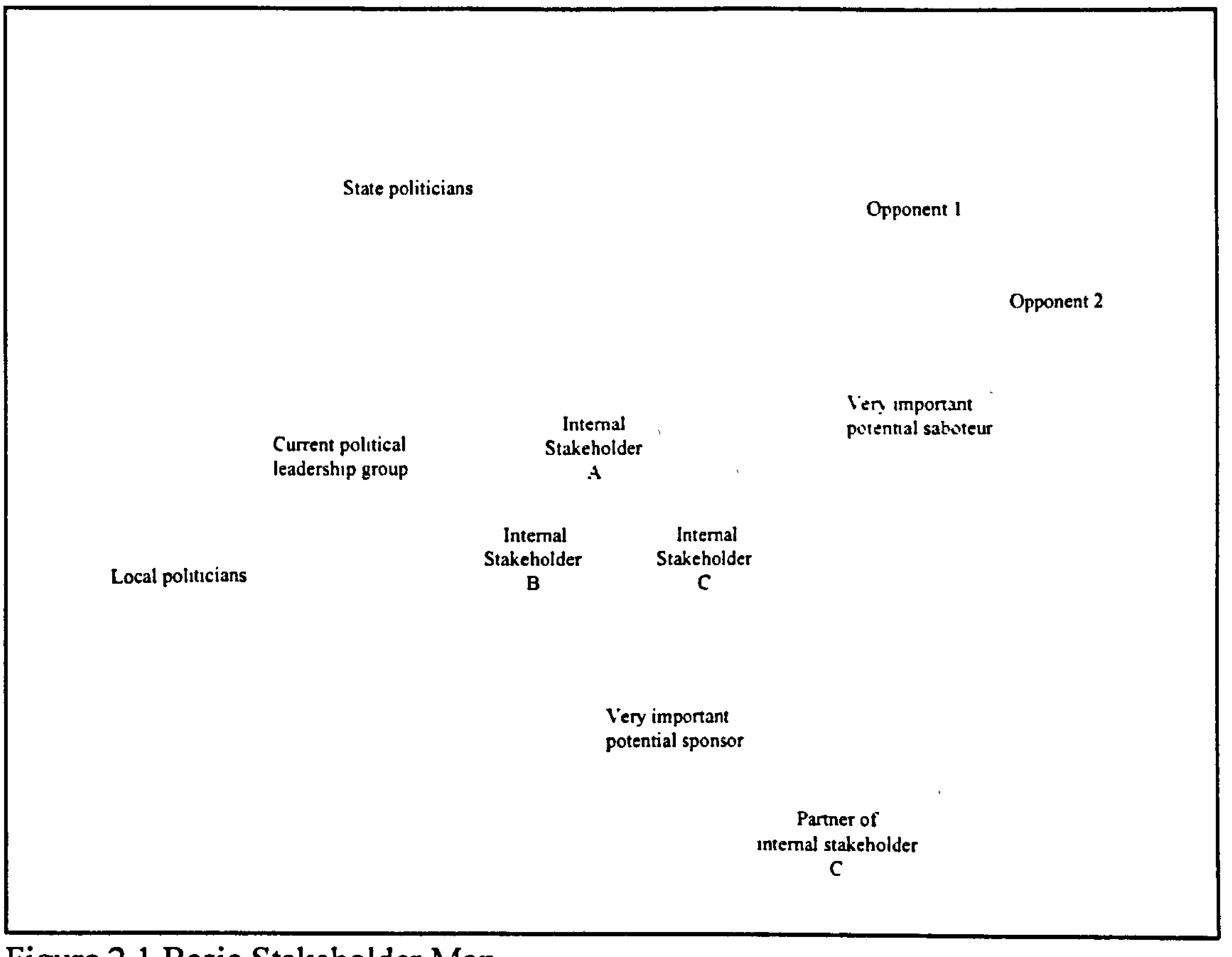


Figure 2.1 Basic Stakeholder Map

The group is then asked to identify perceived influence relationships between stakeholder clusters, using arrows or lines to demonstrate types of relationships (Kelly, 1955, Eden, 1989). A line without arrows or with arrows at each end suggests that influence and direction pass both ways between the stakeholders. A dotted line suggests that there is an indirect or informal relationship between the stakeholders such as a friendship or mutual interest. Solid lines with an arrow in one direction infers there is a direct, superior/subordinate relationship. Solid lines with arrows on both ends suggest a relationship which requires a mutual support and/or a "quid pro quo" exchange. A final task is to draw 'circles of influence' that represent the interest/power relationships in groupings that allow associations of influence among groupings of stakeholders (figure 2.2).

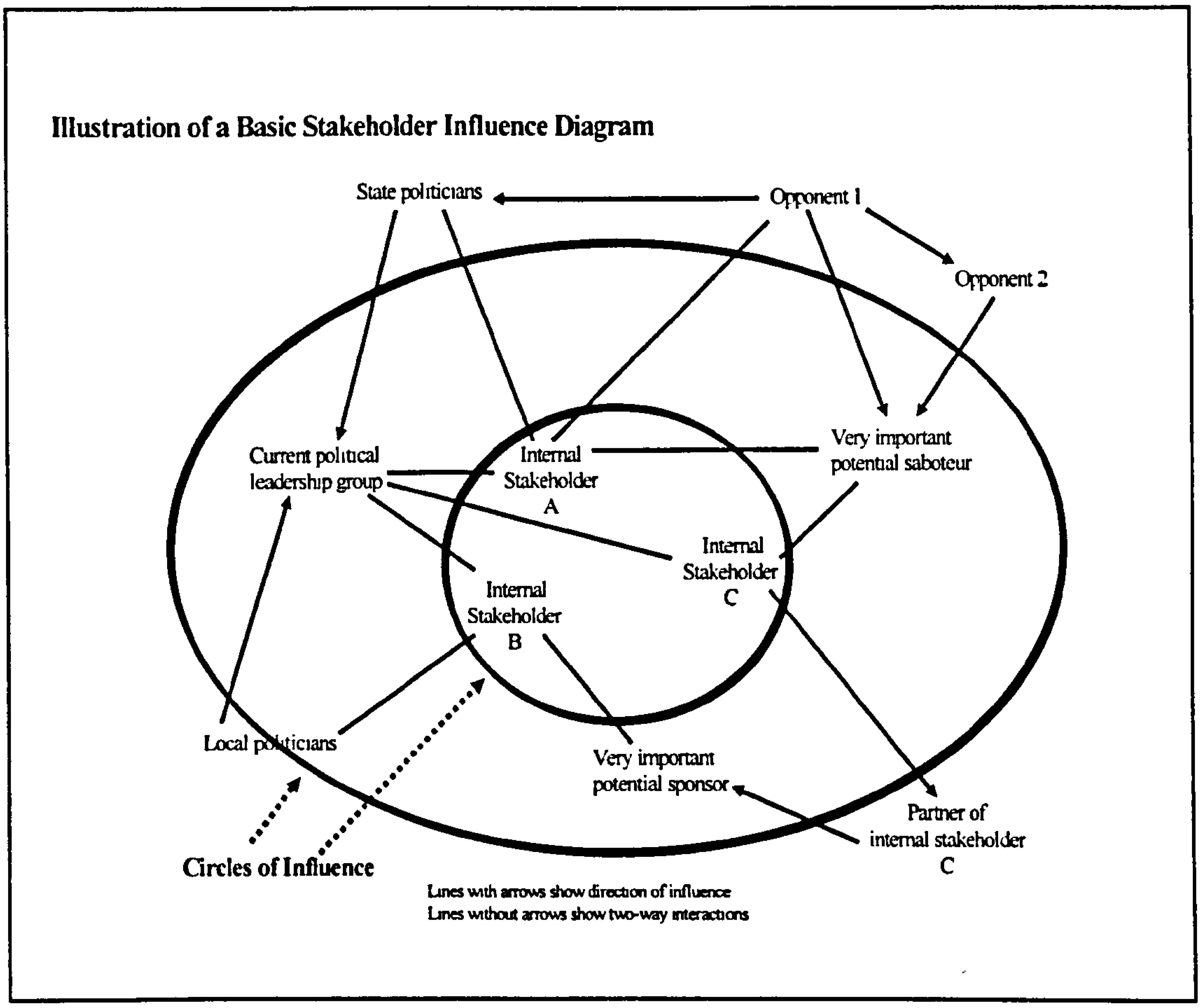


Figure 2.2 Stakeholder Influence Diagram

Placing the stakeholders closer to - or within - the internal stakeholder circle represents their relative ability to affect the groups' strategies. The circles do not necessarily need to be "round." The internal stakeholder group, which is defined as the people who should participate as members in this planning process should comprise the key actors necessary to ensure a successful outcome. It should be noted that this process identifies all key actors as potential internal stakeholders, whether they are supportive of or oppose the process. The group itself should explicitly consider whether or not to include the opposition (often they do not). In any case, these key actors who oppose the intent of the group should be seriously considered as they comprise the group/s the organization will have to deal with. In the case of this particular stakeholder map, the potential alliance that comprises the "opposition" is well linked and might be considered as a potential alliance (figure 2.3). This is represented with the "greyed" circle. Members of the group should note not only the

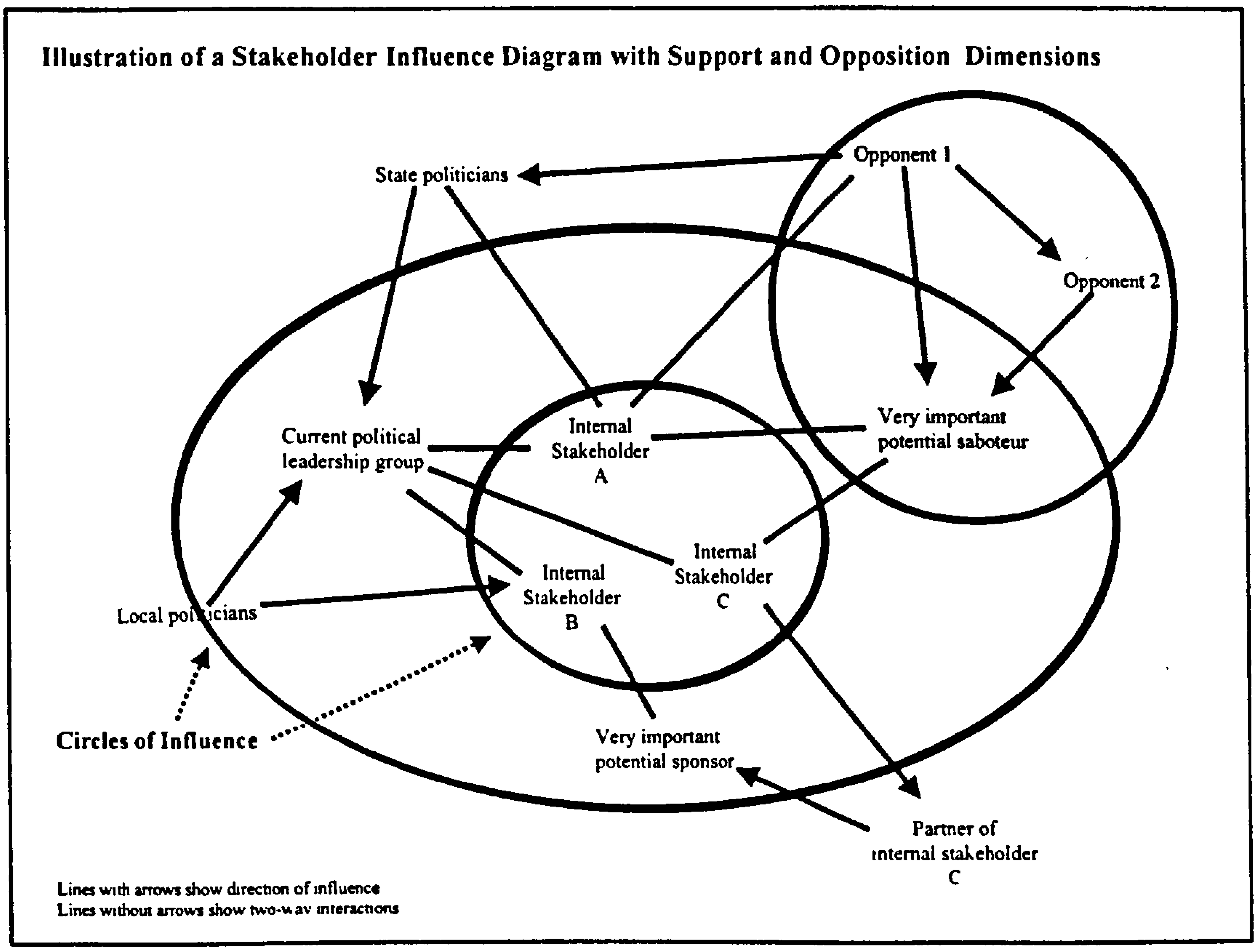


Figure 2.3 Stakeholder Influence Diagram with Potential Opposition

relationships between the three potential opponents, but also the strong influence these stakeholders can bring to bear on two of the internal stakeholders and the state politicians. Obviously, this potential coalition could be a threat to the group's activities.

Members are required to articulate the perspective of their organizations, the composite perspective of the internal stakeholders that comprise the group/organization, and the perspective of the external stakeholders. This allows these statements of perspective to be investigated and elaborated or refuted if necessary.

The intent of this process is to help the organization to discover, understand and include the necessary composite of stakeholder interests necessary to garner their support and therefore, increase the organizations' overall understanding of the problem, issue or opportunity, agreement on strategies and actions and commitment to a solution. The result will increase overall potentials for success and therefore, a suitable outcome. To ensure the necessary stakeholders are involved, members are asked at this point: "in light of the relationships mapped, should any of the identified stakeholders be included in the process?." For example in figure 2.2 above, the question might be whether to include the "very important potential sponsor" in the internal stakeholder group and invite them to the next meeting. If that decision were made, then the group would explore avenues to approach the very important potential stakeholder. This might be by having Internal Stakeholder C work through their partner (Partner to internal stakeholder C), who has a direct relationship with the Very Important Potential Sponsor. This may be especially important, given the potential threat from the potential opposition coalition.

The one or more Stakeholder Influence Maps produced by this process are then presented, compared and discussed in order to share perspectives, educate each other regarding relationships and come to a general consensus of the definition of the group. Generally, each group will develop maps that are somewhat similar regarding placement of internal stakeholders and the lines of influence, but there also seems to be quite a bit of variance regarding the clustering of external stakeholders, depending on the existing, knowledge and relationships of the individual internal actors. Differences in perspectives regarding internal stakeholders are often small due to the requisite knowledge necessary for the actors to make an informed decision to invite the members to the table in the first place. However, these small differences can lead to incorrect assumptions regarding interest and intent and must be resolved as these essentially define a cohesive and agreed upon organization. Differences regarding the location and clustering of external stakeholders should be noted and stored as they reflect possible differences in the interpretation of the "political landscape," which lend valuable information regarding definition and strategies for inclusion. For it is not only the increased number and power of relationships the stakeholders bring to the organization, but the knowledge about these relations that increases potentials for success. As these are multidimensional constructs, a mapping program such as Graphics Cope (Cropper, Ackermann and Eden, 1990) is often utilized to record the information and interactive dynamics represented by the maps.

The result of this exercise is to illustrate relationships graphically so the group can appreciate the larger picture necessary to gain a fuller understanding of the actors involved, their relationships with each other; and therefore an appreciation of the potential solutions that would gain the support necessary for successful implementation. Another ancillary outcome of the exercise is the development of strategies to contact and include identified stakeholders in the process. The strategy not only informs the group regarding whom to contact or communicate with in terms of importance, but how and who should be responsible for that task. It therefore, defines the relationships between stakeholders necessary for a successful outcome. Stakeholders are also examined regarding their importance to the organization, which allows the group to efficiently understand to whom and where they should focus their attention. Possibly of even greater importance, the process helps the group begin to understand the positions of stakeholders who might oppose the group(Nutt and Backoff 1989). This gives the group the chance to consider alternatives, options or approaches that would tend to answer or mitigate the interest of the opposition.

As a final process guideline, it is advised to restrict the initial meeting to the production of these products. This is necessary as the intent of the exercises is to give the group a more comprehensive understanding and definition of 'whom' this new organization is, and which stakeholders should be at the table in terms of the problem identified and the solution preferred by the group. Therefore it is advisable to delay other activities that would progress from this point to the next meeting when possible missing stakeholders can be invited and they also can identify with the organization.

Conclusion

A careful study of this chapter should give the reader a basic and possibly a working understanding of how the stakeholder generation and influence mapping process works. Some appreciation should also have been conveyed for why the process should be undertaken and how it helps to increase potentials for developing and implementing a successful solution. The next chapter describes a case where this process was employed and what was learned from that experience.

CHAPTER 3

PUBLIC TEACHING

HOSPITALS CASE

Introduction

This Chapter details a case in which the organization involved directly benefited from a careful exploration of stakeholders and stakeholder relationships. It represents my work at the time as a practitioner/researcher that allowed me to begin to discover the relationship between problem, issue or opportunity, the organization, and the solution, which is introduced at the end of the chapter.

The Public Teaching Hospitals Experience

In 1990-1991, I was asked to facilitate a series of workshops by a collection of public teaching hospitals in the United States that had been at that time been working together as a "trade association". A trade association can be defined as a group of similarly interested parties that act as an "information conduit" to keep the parties abreast of important issues in their respective fields and publically espouse their position to the public and legislatures. Generally, an organization of this type will not serve other collaborative type functions due to certain legal restrictions regarding "restraint of trade" and monopolistic activities. This organization however was faced with the ramifications of a national crisis in the health care industries regarding provision and cost of medical care which threatened their very survival. The state (a governmental unit of the United States. a country which functions largely as a federal system with certain constitutional rights and protections given to state governments) where these hospitals exist had become of one of the national leaders in medical systems reform. Indeed, much of the national legislation currently under consideration at the US national level is modelled after that state's legislation. This model was based upon large insurance organizations using their ability to command competitive pricing by medical providers. By wielding the competitive market "sword" the withdrawal of tens of thousands of patients from one medical network and awarding them to another based on an assessment of medical costs has allowed these huge insurance groups to move beyond just accepting the lowest bidder to dictating terms to these hospitals. The result is there is far less profit margin for providers. In addition, as each medical service provided, the margins for all type of service remain relatively the same. For years, providers had operated on a "net sales" basis with an overall estimated margin of profit. This meant that certain services tended to subsidize others. With the new payment scheme, this was no longer possible

A second tactic taken by these huge insurance providers is an economies of scale management policy. The two outcomes from this tactic are that procedures offered by all providers are essentially the same in that payment schedules detail not only the medical procedures, but the drugs that may be prescribed as well. The other outcome is that individual doctors, hospitals and clinics are simply too small to efficiently apply the attention of insurance company managers and lawyers. This means that these individual members are required to merge into massive provider networks that offer the same services and billing.

This new approach was designed as a response to real perception of the cost of medical care at the national level as exorbitant. This industry pricing for services regularly resulted in double digit increases on a yearly basis. The public perception is that medical provision and insurance costs are completely out of control and do not reflect the real costs of producing services. Indeed the market acting on its own had resulted in a surplus of medical specialists where salaries in the area of $200,000+ per year for beginning practitioners was common. On the other hand, general practitioners were receiving a relatively small starting salary of $100,000, which led to a shortage in this area. However, the American Medical Association (AMA) has the authority to license doctors, which gives them the ability to "gate keep" the number of practising doctors, which keeps potential competition at what they would consider an acceptable level that maintains the high salaries. Once a doctor had been awarded a general practitioner license however, there were no restrictions in pursuing a specialist course and making the "big bucks."

The effect of the new insurance policies being developed at both the state and national level have resulted in a radical change in the provision of health services that includes price controls, service mandates, requirements that doctors join with large medical network providers and... what might be taken as doom for individual doctors, hospitals and teaching hospitals. Provider networks are unwilling to merge with the teaching hospitals due to the increased costs incurred, but not reimbursed by the insurance companies. In addition, the public interest functions have generally resulted in these type hospitals being publically owned and managed by elected officials (generally as oversight mechanisms). Few private firms have any wish to risk their investment and profits on the whims of an electorate and its elected officials. Simply put, these large insurance companies cannot be bothered with the additional costs of dealing with one doctor, hospital or teaching hospital with its special pricing. These prospective changes will significantly impact upon high cost facilities including many of the public teaching hospitals which bear the additional cost of education, as well as a governmental mandate to serve certain low income and indigent populations.

These hospitals were founded and to a certain extent, funded on the basis of provision of these additional medical services that serve the "public good." The common estimate in the industry is that these additional services result in an additional fifteen percent to the basic costs of medical services provision. Yet, the new formulae for funding medical services do not account for these type institutions which are the exception to the rule. The real irony of this whole situation is the short sightedness of this "market" derived approach. Without the teaching hospitals, there will be no supply of doctors... Yet no private medical provider or insurance company feels it is their responsibility to subsidize this necessary public good.

While these institutions operate with budgets of hundreds of millions of dollars, they comprise a small percentage of their market area. Relatively small investments by large institutions in their markets could have devastating consequences to these institutions. With the future of medical care provision spelling almost imminent doom for the constituent hospitals, and agglomeration tendencies in the market putting them in increasing risk, they decided to explore the potential of collaboration.

The process strategy employed for this potential collaborative organization involved first defining the problems these hospitals faced in an "up close and personal" way. To accomplish this, the Chief Executive Officers (CEOs) of the four institutions were asked to prepare a presentation for the collaborative in terms of hopes and fears. This is the same hopes and fears process that is employed by Bryson and discussed in chapter five. The organization's membership was the four Chief Executive Officers and the manager of the trade association. The Chief Executive Officers were asked beforehand to be as honest and explicit as they could about their future planning as possible, both as an individual stakeholder and as a member of this organization. A common agreement was forged before the meeting that information provided would not "leave the room." These assignments in preparation for the meeting were discussed in detail with each Chief Executive Officers in advance, which built up an expectation for a realistic discussion. At the beginning of the meeting, these agreed upon conditions were again discussed and agreed to.

While these organizations "compete" in that they all provide medical care services, their history within the organization allowed for a certain level of "trust," which translated into some almost shocking revelations regarding the pessimism of these units. One of the hospitals was not quite so forthcoming and this was openly discussed by the group members as they felt somewhat betrayed by the perceived reticence of the one member. This resulted in some additional revelations regarding the question of privatizing the hospital in response to what this stakeholder perceived as a rather dim future. To sum up, they all knew they were in trouble and it was abundantly clear that their agreed upon vision of survival encompassed some sort of collaboration with one another. Yet, no unit was at all interested in mergers and was politically constrained from doing so.

My Stakeholder Influence Mapping process as generally presented in chapter two was then employed to help this organization that had just agreed that the "status quo" meant sure extinction, to explicitly explore their relationships with the outside world. The process followed the agenda detailed in chapter two with one exception. As this was a small group of four Chief Executive Officers and their manager of the trade association, they did not break into subgroups. Rather they constructed the map after going through the stakeholder brainstorming process (figure 3.1).

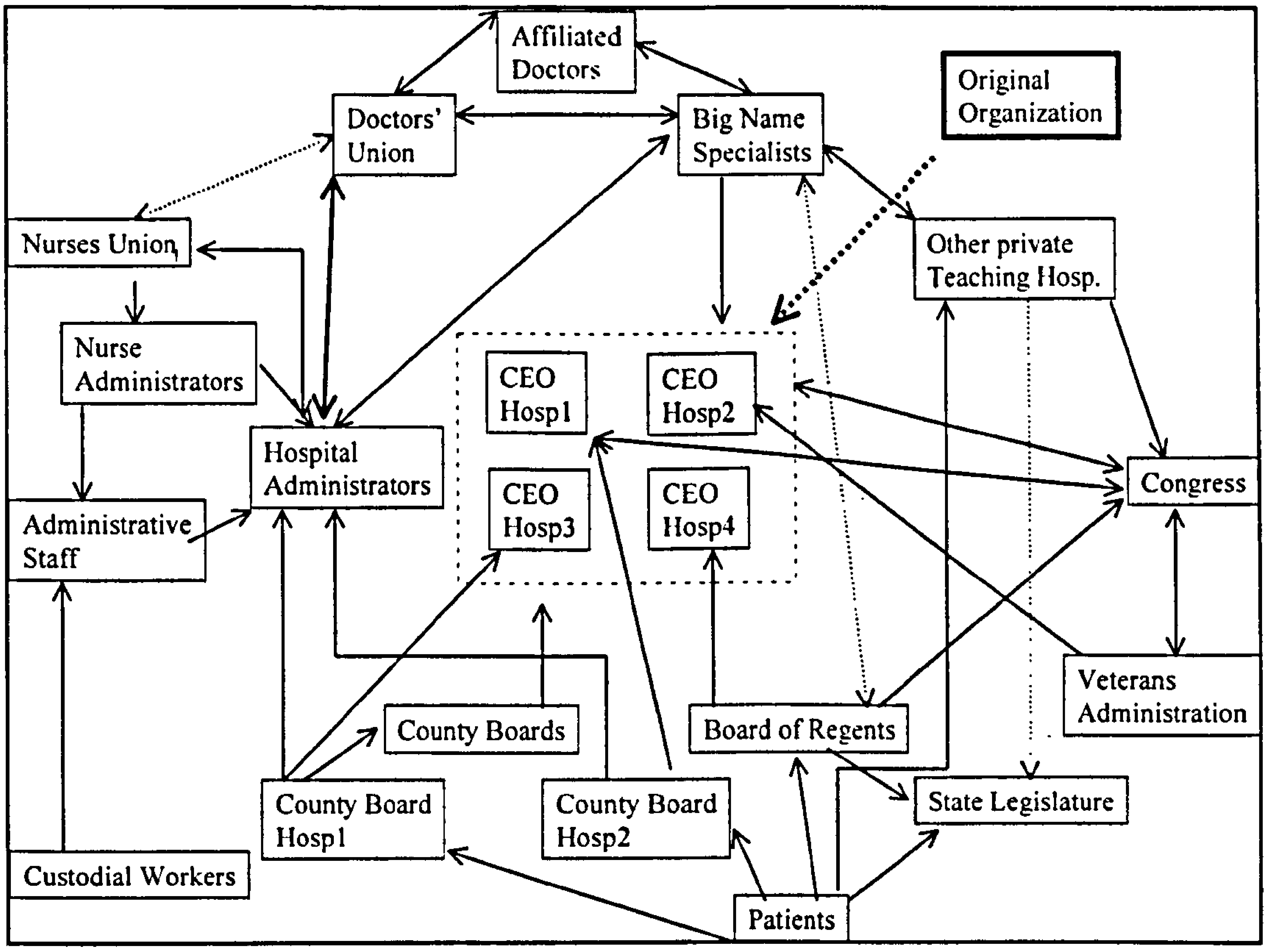


Figure 3.1 Public Teaching Hospitals Original Stakeholder Map

By utilizing the *stakeholder identification* as developed by Bryson (1986), and *stakeholder influence mapping* techniques, the Chief Executive Officers found that the Public Teaching Hospitals organization, as they had identified it previously (that is, the four CEOs), was not adequate in terms of marshalling the capacity both from within their systems and without in the legislatures and marketplace. Indeed, they would not be viable without including the medical department heads, and another private hospital that also had a significant teaching content as part of their portfolio (figure 3.2).

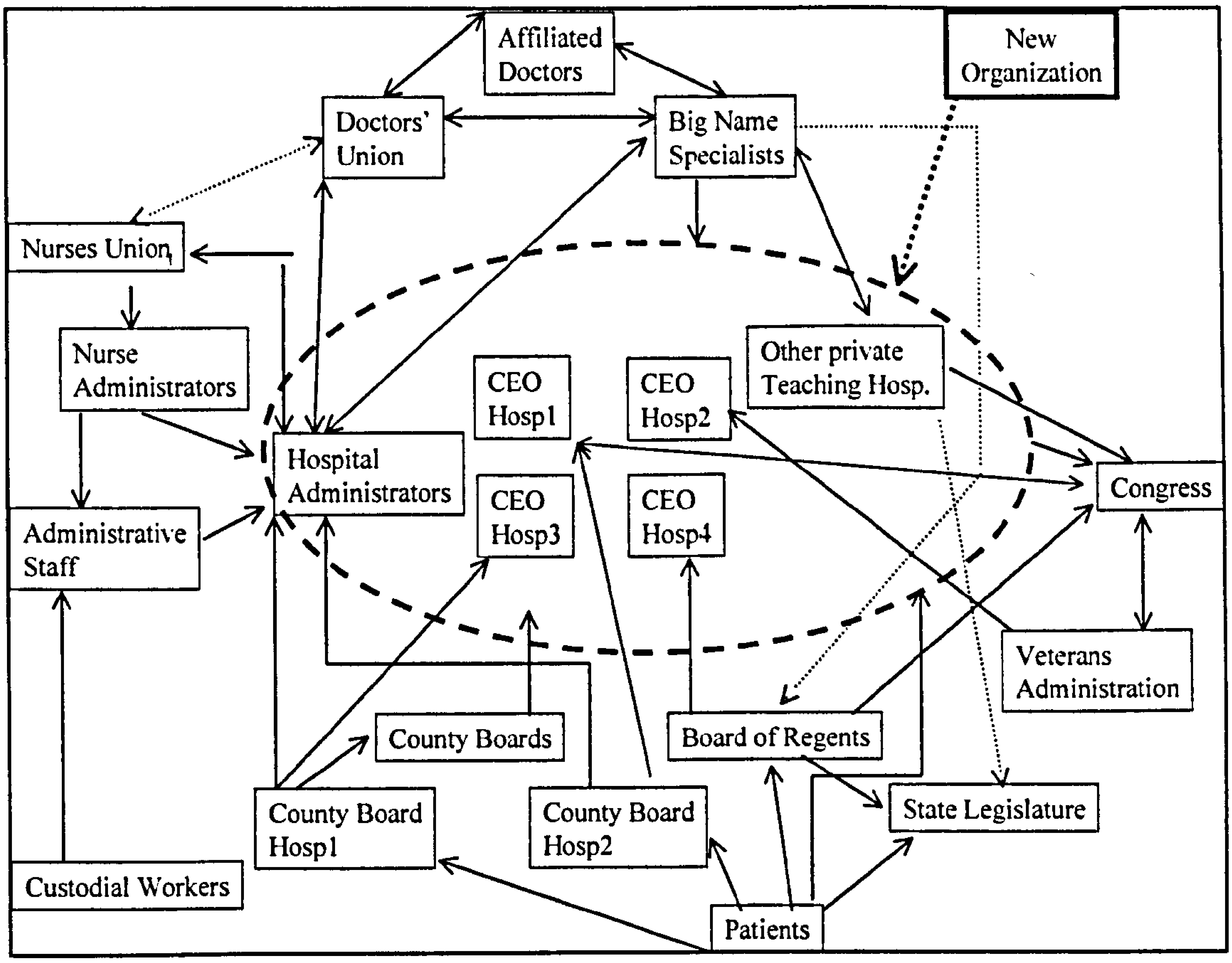


Figure 3.2 Public Teaching Hospital Map as Re-construed

This process did not result in immediate recruitment of the other hospital. Indeed, negotiations began only after six months of further consideration as the organization members had always considered this other hospital to be a competitor. In this case, it increased the number of internal stakeholders from fourteen to nineteen.

A second round of stakeholder analysis was then employed with the enlarged group. The stakeholder influence maps were shared, discussed and modified. An adaption of the 'ovals' process (Bryson and Finn, 1995) was employed in this group.

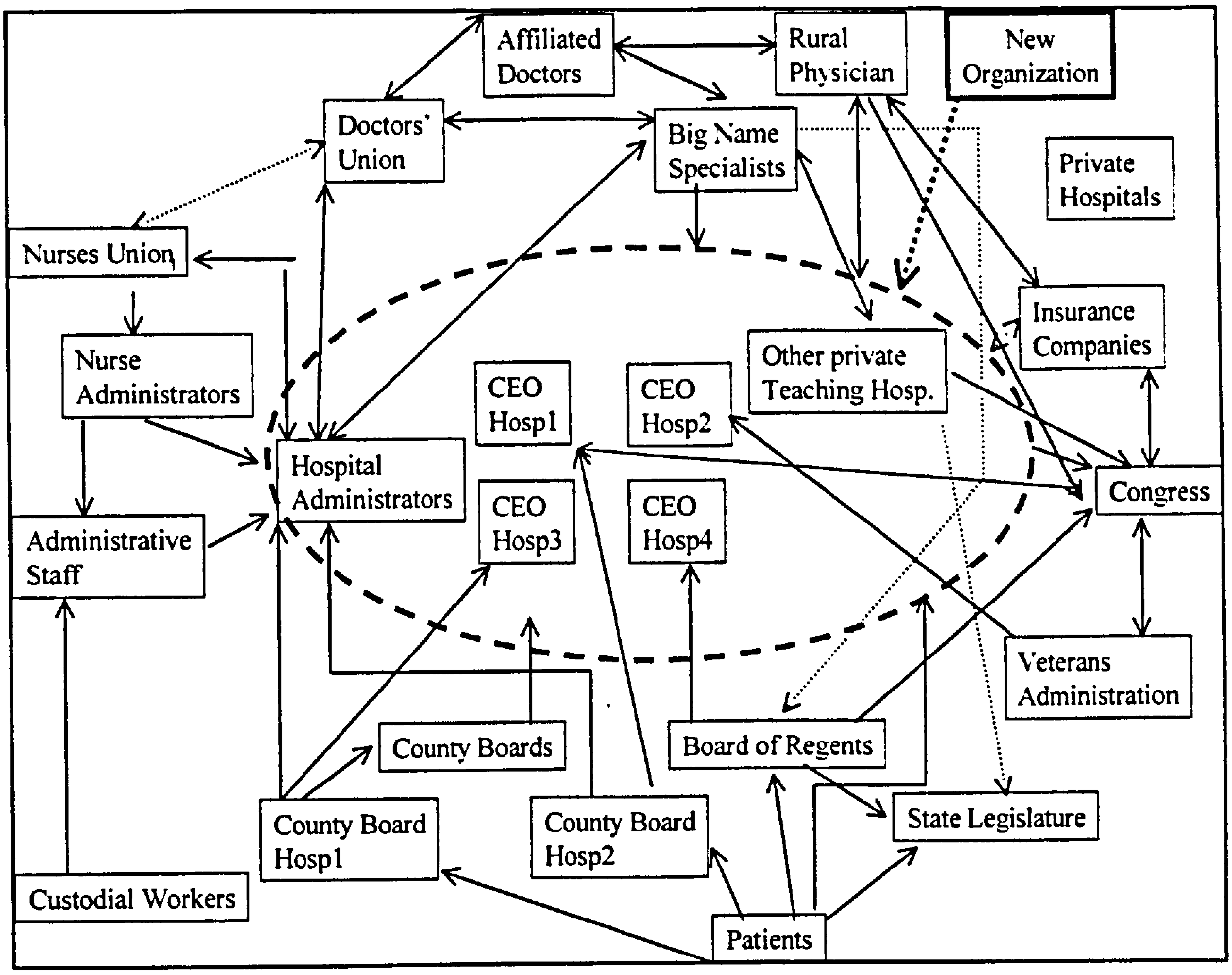


Figure 3.3 Public Teaching Hospitals (Final Construct)

A day was then set aside for external stakeholders identified in the stakeholder influence mapping process who were both powerful and interested in the Teaching Hospitals' position to meet and discuss their interests. The external stakeholders included legislators, Chief Executive Officers of insurance companies, competitor hospital organizations, the professional association representing physicians and practising physicians who used the hospitals. These stakeholders were encouraged to define their 'world' in the context of public teaching hospitals. In this mode, they identified several stakeholder groups and redefined others (Figure 3.3). An example of such was the view of rural physicians, in which the concept of 'a country doctor,' who is a one person health delivery system and their requisite needs were completely debunked as rural physicians strive for coordinated and supportive health care systems. Options were generated by the collaborative group and a position paper was drafted.

The newly construed organization continues to meet and works with the Legislators to craft the new policies and as of this point, they are quite optimistic.

To sum up the case:

- The group, based upon a strategic assessment, re-construed their definition and membership to address the large environmental threat to their existence.
- Members of the new organization redefend their approaches to key stakeholder groups, such as rural physicians and the legislature, based upon an options analysis and targeting exercise.
- The new organization is redefining the national problem of medical service delivery in a manner that reflects their niche, based upon analysis of external stakeholder relations.
- The group has developed a common sense of ownership towards their problem, based upon a good understanding of the relationships between stakeholders and shared identification of the problem.
- To a certain extent, a 'social contract' has been created within the organization in they have agreed upon expectations regarding their joint responsibilities and behaviour.
- They have reported to me in exit interviews with both staff and the chair that stakeholder process was both powerful and beneficial. That they would never have considered altering the organizations membership or function without it.

In other words, they have succeeded in the identification of the problem/solution domain and have strategized on options based upon the larger context and stakeholder groups involved in the issue. This group transformed itself from an information sharing group to a larger organization that is capable of recognizing options and opportunities within the context of large scale change... and acting upon it.

I would note that the experience was not as smooth as it reads here. As a facilitator of this experience, I was continually surprised by the options generated and opportunities that developed. In at least one meeting, I carefully planned the agenda, only to find the group had leaped completely past my thinking as the evolving sense of who they were opened new vistas of opportunity for them. In essence, I found that as a strategic planner, I could not forecast in advance regarding the definition of the organization as I lacked the knowledge and insights developed by the group in this exercise. Perhaps the most telling point to make is the discovery of the potential for the process to help groups define an organization in terms of what it takes to be successful. While at some level, I comprehended that possibility, this was not my major intent in using the process with this group.

A First "Cut" at the Organizational Model

From this and other experiences, I developed a technique that generates an agenda for an organization by carrying out the stakeholder process delineated above and combining the options developed there with options generated through brainstorming issues within the organization. Through this process, an agenda of concerns is both generated and addressed that essentially defines the problem, issue or opportunity and suggests solutions from the perspectives of the members of the group itself. The problems and options are also reviewed from the perspective of the external stakeholders. Stakeholder Influence Mapping also gives further definition to the political landscape that defines the problem, solution and implementation.

P=>S=>I

Figure 3.4

From a strategic management and management perspective, problems should generate strategies for solution, which should then be implemented. Thus, P=>S=>I (figure 3.1) represents the proposition that Problem Definition should lead to or result in Strategies for Solution, which should then lead to provide support for actions for Implementation. This model is very much like the one developed by Huxham (1996). Indeed, in a pre-judicial sense, problem definitions are constrained by stakeholder perspectives dealing with mandates, beliefs, interests and resources. Successful endeavours in strategic planning and management occur as a result of careful attention to this exercise. This simple diagram was my first attempt at explaining why and how stakeholder analysis and influence mapping fit into the organizational process. Stakeholder techniques ensured that the proposed solutions addressed problems stakeholders considered important and therefore, would support and carry through the implementation. If one assumes that the organization "exists" as a matter of fact and that problems, issues or opportunities will be addressed by that entity, this model is helpful. However, this is not always the case, which is discussed in Chapter 8.

Conclusion

From this chapter, the reader should have gained an understanding of the stakeholder process from the perspective of how it works and what can be discovered by an organization through its use. Second, this chapter begins to explore the theory grounding the approach. Thus convinced that I had a technique that had potential and some understanding of the organizational theory involved (P=>S=>I), I proceeded to modify the technique and apply it to other organizations with fair success. Of particular importance to this research was the testing of the process with an organization in its formative stages. My interest was to test the potentials of the process to help clearly define an organization in a manner that would enhance potentials for a successful outcome. Therefore, I began to look for an opportunity to use the process on an organization that had not clearly established itself in terms of its membership. Testing and refining a developing hypothesis however is quite different from observing and pondering the effects of a process. So before such an effort can be discussed, the methodology and related literature must be investigated.

SECTION TWO
FORMAL RESEARCH
STORY

This section begins with an examination of three stakeholder approaches that are recognized in the literature as well documented and successful applications of the technique. Each approach is examined and presented in such detail as the reader should readily understand the assumptions supporting the application and an overall comprehension of the stakeholder aspect. Chapter seven sets out the research methodology used to examine three cases that directly led to the development of a stakeholder approach. The two cases examined in chapter eight have an emergent research theme that addresses the function of an organization as one that operates as a transitional mechanism which defines the problem, issue or opportunity as a negotiated agreement between a set of stakeholders who have the capacity to successfully work towards an agreeable solution.

CHAPTER 4

NUTT AND BACKOFF

Introduction

Nutt and Backoff's stakeholder analysis model is presented within the context of their strategic planning approach for public and nonprofit organizations. The authors argue that their strategic planning approach flows from a dialectical focus that evolves through the stages of their process. Therefore, in order to understand their methods and intent, one must first comprehend their overall approach. I take issue with this presumption and will critique their approach as it unfolds. My intent is to extract their stakeholder and resource analysis tools as they are the powerful predecessor to Bryson's, Eden and Ackermann's and my own processes.

Nutt and Backoff

While Nutt and Backoff discuss a variety of strategic planing options that they have evolved their model from, there are three basic premises that flow from one another and ground their discussion. They first state that strategic planing in the public and nonprofit sectors are very different from the private sector regarding expectations, authority and implementation. Nutt and Backoff's terms for this are environmental, transactional and organizational processes. Due to these differences, accepted practices that are derived from the private sector will not address the additional strategic planing requirements of the public nonprofit sector and therefore are more likely to fail.

While this argument is defensible in that there are clear differences in terms of scope and opportunity between these sectors, I would hold that the difference is really a question of where these sectors are located on a continuum of organizational behavior, rather than as separate entities. Perry and Rainey (1988) agree with my interpretation and Eden and Ackermann's work also appears to ascribe to this rendition. I discuss the further blurring of these differences as organizations have evolved in chapter nine.

The second premise and perhaps the major differences cited are the differing manners which managers and organizations utilize issues as opportunities to form and articulate agendas. An issue is defined as "a trend or event, arising inside or outside an organization, that can have an important influence on the organization's ability to reach its desired future" (Ansoff, 1984, Nutt and Backoff, 1987). The objective then, of strategic management is to successfully identify and deal with these important issues among the myriad of competing ones that are not as important to the short and long term success of the organization. Perhaps the major difference from the private sector in this area is the degree to which issues are developed outside the organization; are beyond the capacity of the organization to deal with alone, yet still must be addressed; and are subject to decision process that are both competitive and outside the organization's control. Many of the possible portfolios of issues may be exceedingly important to the organization within the right context, yet can seem relatively unimportant due to the number or immediate "emergency" type situations that demand the attention of managers and organizations (Kolb, 1983, Bryson, 1995). Also, many small decisions made only within the context they bring can miss the direction the sum of those small decisions entails. In many cases, these decisions are incremental (Lindblom, 1959) and indeed do reflect a policy context, but the problems addressed by Nutt and Backoff manifest as unintended consequences.

This is a well-used concept. Even an old children's rhyme - "There is a Hole in my Bucket" illustrates this dilemma. Nutt and Backoff seem to be making the argument that public sector organizations are not able to internally devise, control and implement major policy and decisions to the extent private sector firms are able to. Again this appears to be a difference in degree rather than a difference in kind. This difference could also be an artifact of a private sector condition that is not particularly appropriate to firms functioning in a global economy with many factors outside their control as I discuss in chapter nine.

Therefore, given that strategic planing processes are necessarily different and that organizations need to work at the issue level to be successful. Nutt and Backoff propose the best process to use is one that utilizes a process of comparison and contrasting in order to discover, examine, strategize and implement solutions.

All of the stakeholder authors examined herein agree with this premise. However, I would want to elaborate the term issue to better define the various domains the term issue seems to encompass. I use the phrase: problem, issue or opportunity to identify these options which also tends to illustrate the continuum mentioned above. Public sector organizations tend to operate in terms of issues and problems while private sector organizations operate in terms of opportunities and problems. Yet the public sector also acts on opportunities as the private sector also has to deal with issues (figure 4.1)

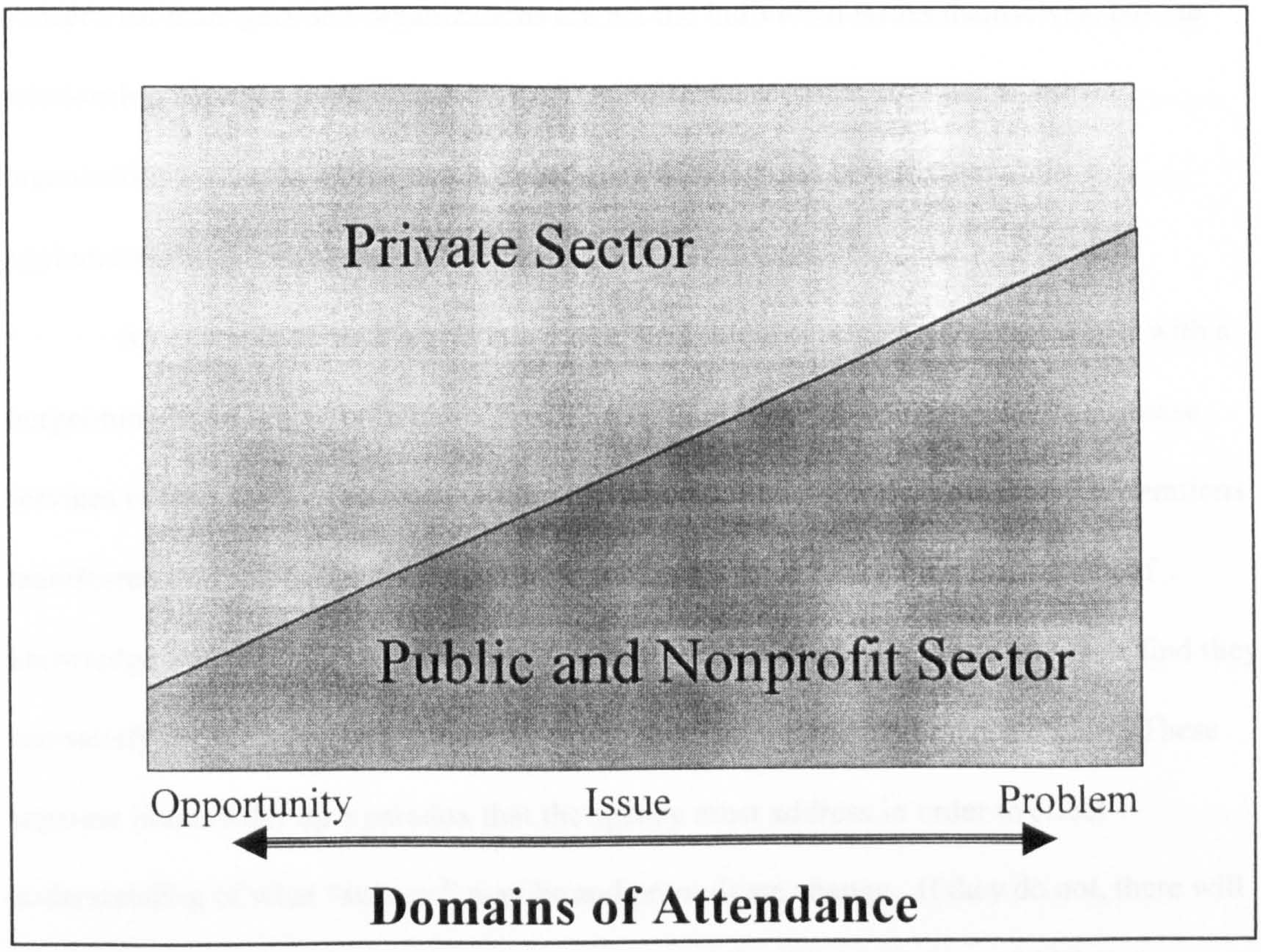


Figure 4.1

In order to address the identified issues, Nutt and Backoff employ a dialectical process they describe as framing a "tension format." This process defines an issue not only by its common definition but also by what it is *not* (antithesis) (Kelly, 1955, Eden, 1989). Another similar approach is to develop the tension as one which represents a paradox (Van de Ven and Poole, 1987). While each interpretation is mutually exclusive in and of itself, when considered together they can offer insights (Cameron, 1986). They then compare issues to one another using a competing values format to develop dialectical conversations and comparisons around the issues that manifest the tensions between them. This allows the manager and organization to identify and contextualize their decisions (Quinn, 1988, Nutt and Backoff, 1992). From this perspective, Nutt and Backoff argue that the real areas of concern for managers and organizations are not the individual issues themselves, but the relationship between those issues. The framing of these issues as tensions allows organizations to focus on the larger directions and questions before them as an agglomeration of issues that define them.

An example of such a problem would be a social service agency that works with a burgeoning homeless population. On one hand there is tremendous pressure to increase services to help these populations deal with survival. On the other, political considerations manifested through budgets often under-fund these type organizations due to lack of knowledge and political power among the constituents. Organizations of this sort find they can satisfy no one as there are limits to efficiency that are quickly reached within. These separate issues offer up a paradox that the agency must address in order to effect understanding of what "success" may be and promulgate change. If they do not, there will be one meeting where the organization seeks to build staffing in order to fulfill their mandate to serve the homeless and perhaps the very next meeting will be held to layoff staff due to budget cutbacks.

Utilizing tensions as a method to deal with complex issues and ideas are grounded in several authors' writing on strategic planing. Jantsch (1975) wrote about using strategic planning in much the same way as the homeless example above. Mitroff and Emshoff (1979) and Mason and Mitroff (1969) are cited in Nutt and Backoff's work regarding the use of dialectical ideas to frame discussions when organizations address needs in policy making as opposites along with Cobb and Elder (1972) who pose that opposing issues as conflicts between interest groups. Finally, they cite both Mason (1969) and Sussman and Herden (1985) who found that exploring issues as opposing forces led both to superior results and innovative thinking.

In order to capture the dialectic, Nutt and Backoff utilize a framework process to identify and develop issues. They begin with the development of a Strategic Management Group (SMG) whose role is to identify the issue and strategy and then inform and work towards agreement among key stakeholders. The SMG is "made up of people (five members is ideal, Nutt, (1989a)) who appreciate the wants and needs of clients, can speak to professional values, and understand the authority system in which the organizations must function" (Page 153). They remark that outside stakeholders may be part of the SMG but are limited to involvement at the beginning to legitimizing the process and then are again involved during formulation and implementation of strategies. Their discussion of how the original group is formed clearly demonstrates they have not considered a stakeholder approach to the formulation of the SMG. While they suggest some attributes the members of the group should have, they clearly do not utilize the variables of power, influence, resources or any other credential offered by other writers. It is somewhat puzzling to their whole process that they do not even use their own stakeholder approach.

The process begins with a scheme that categorizes the issue into types of developments that organizations recognize and then define six categories of Issue Tension that should be used to identify and examine the type issues and organization is working with.

Types of Developments That Organizations can recognize

Nutt and Backoff submit that issues can be defined as concerns of equity, transition, preservation and productivity (or combinations thereof). In figure 5.1 from their book a 2X2 chart is developed that again employs the dialectical tactic to compare and contrast issues by identifying their poles (see figure 4.2). So that problems can be evaluated by where the fit on the two scales of openness/flexibility and internal/external.

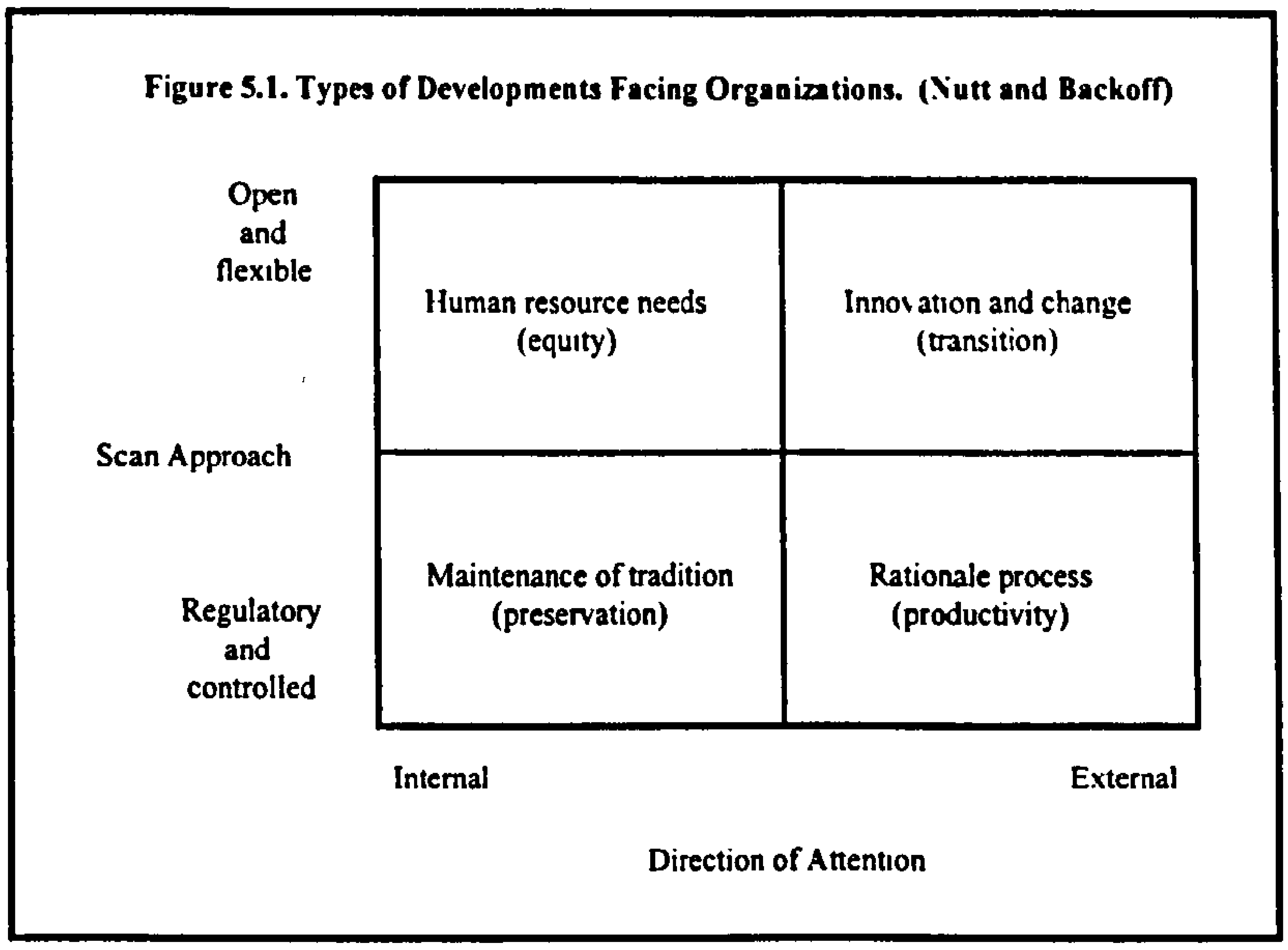


Figure 5.1. Types of Developments Facing Organizations. (Nutt and Backoff)

Figure 4.2 Nutt and Backoff (Figure 5.1)

The Six Issue Tensions

Transition-Productivity Tension relates to when an organization is required to undergo some significant change in its operation or service provision while maintaining a level of services. An example would be an airport changing the drive-up and parking areas while at the same time, keeping traffic flows necessary for normal operations.

Equity-Transition Tension happens when change is anticipated with an imbalance of either work or compensation. People will compete for the issue if they perceive potentials for reward or prestige, while they will make sure that new work without compensation becomes someone else's problem (Bardach, 1977).

Equity-Preservation Tension deals with the imbalance between what seems fair and the way things are currently done. This is a common occurrence in organizations that have experienced high cohesion regarding employees and are then required to change in some manner. For example, new employees often perceive they are unfairly compensated compared to older employees doing the very same job they are but paid sufficiently more due to time on the job.

Preservation-Productivity Tension involves organizations that strong traditions that are well accepted for being equitable, but some "shock" to the system requires that the old ways be abandoned in order to survive. For example, when a small organization is forced to cut back working hours so that everyone can maintain their job, but the supervisor retains the right to attend conventions that are perceived as "junkets."

Equity-Productivity Tension occurs when an organization is forced into change, but established agreements (not within the control of the organization) influence less rational decisions. For many years diesel locomotives continued to have a Fireman ride along even though there was nothing for this person to do as the job was to fuel the firebox with coal. This was due to union agreements that at the time seemed easier to follow than confront.

Transition-Preservation Tension addresses the problem of organizational inertia. Entrenched systems are hard to change due to established operating procedures, historical perspectives, undocumented operations, etc. The perspective of the people working is that what they have been doing to date is successful, so why change? An example of this might be the resistance politicians have to changing the fundraising system they now use. While hardly anyone likes the system, no one wants to risk change.

While this process seems to work for the authors, I have not been able to adopt it for two reasons. First is the problem of complexity. I have found that processes that are overly complex tend to inhibit the productivity of a group. There are several reasons for this, but the most important is that the very process of arriving at an agreement regarding an acceptable definition of what the issue is requires intense effort by group members. Any process that requires the group to concentrate on it rather than the group dynamics of defining the issue are counterproductive. This process requires the group to first comprehend it in order to develop the issues. In fact, this defines it as a process that deals with abstractions rather than the issues themselves. It would appear the authors have applied a phenomenological reductionist method to their treatment of the abstractions. This is best illustrated by their use of the "six tensions" as a process to examine issues. These six tensions are manifestations of a reflective process applied to itself (transcendental), which Hegel and Husserel identified as "eidetic reductionism." This certainly would be helpful to understanding the theory of organizations, but is impractical as a group process. Second is the question of how well defined an issue is for the group at this beginning process stage. The Nutt and Backoff analysis applies processes that presume the issue is quite developed and I have not found that to be the case in my work. I argue for a more open approach that encourages first the discovery of the issue and then an accommodation of the issue definition by the group.

Using the Framework

Nutt and Backoff use the term "triggering development" to describe whatever condition precipitated the strategic planing planning process. They then compare and contrast these triggering developments using Table 5.1 (above) to produce tensions. They use an example regarding a dispute about perks for executives which would involve questions of equity and preservation/ productivity/ transition to define the tensions involved in the issue. They then explore the other generic categories not involved to elicit any other tensions that might have been missed.

This process according to Nutt and Backoff has two positive outcomes. First, the process reveals underlying concerns that are subsumed (buried) within the larger problem, but must be addressed in order to comprehend the larger problem. Second, the process demonstrates how organizations can be pulled in different directions that both can advocate for valid issues within the fabric of the firm which allow constituents to pursue their perspective while respecting others.

I found this "discovery" process to be quite interesting as Nutt and Backoff seem to acknowledge two assumptions with this process. First is that issues exist in their own right. Second is that organizations discover these issues through some sort of triggering development. The first assumption is well founded in the problem solving literature and underlies all four stakeholder approaches discussed here. The second assumption is more intriguing as it alludes to some process that occurs within an organization to bring an issue to the surface. Nutt and Backoff do not elaborate on this process, but I accept their premise. What I have not completely understood to date are the various options that must be part of this process. For example, one easily understood triggering process might be an organizational mandate to begin a strategic plan and another could be a response to some overt threat. However, many other triggers could be much more subtle, involving a slowly dawning process of comprehension by members of the organization or some complex development that presents itself as an issue to be discovered only by careful analysis. Nutt and Backoff's model does appear to deal with the obvious triggers, but I see no options available to address the more subtle triggers. Therefore, I have rejected their issue analysis as not being comprehensive enough to address all the possible manners issues could manifest in an organization. While all of the authors analysed herein seem to accept that most issues exist in and of themselves, they do not agree on how these issues make it to the "table."

Nutt and Backoff then apply a six-stage process to be used by the SMG to strategically manage organizations. Each stage includes several steps. The SMG also employs a three-step process of search, synthesis and selection that are employed in each stage (see Table 4.3 below). I will briefly describe each step with particular attention to steps five and six as they deal with stakeholder identification and implementation.

Table 4.3 from Nutt and Backoff (table 7.1)

	Search for:	Synthesis of:	Selection of:
Stage One: Historical Context			
1. Trends and events			
2. Directions			
3. Ideals			
Stage Two: Situational Assessment			
1. Strengths			
2. Weaknesses			
3. Opportunities			
4. Threats			
Stage Three: Strategic Issue Tension Agenda			
Stage Four: Strategic Options			
1. Action sets			
2. Strategic themes			

Stage Five: Feasibility Assessment			
1. Stakeholder analysis			
(Internal/external)			
2. Resource analysis			
Stage Six: Implementation			
1. Resource management			
2. Stakeholder management			

Stage One: Historical Context

Nutt and Backoff's intent in this stage is to ground the thinking of the SMG by "reconstructing" the historical past of the organization so the group is able to begin planning for an ideal organization based up on what the organization is capable of. This reconstruction would be based upon kyros intervals which would define the capabilities within this process as those components of losses, failures, wins, successes, traditions, leadership that historically define the organization. Kyros is a ancient Greek concept that argues that time as it is perceived by humans is not necessarily linear and regular (chronous). Kyros time is constructed by the incidents that are memorable and recorded. Therefore, an individual's life would be measured in terms of the memorable events. For example, from a kyros perspective, an individual who does not seek knowledge and challenges might exist along a kyros time line as: Birth, Marriage, Children, Death. Kyros in the organizational context would suggest that these entities also exist in terms of opportunities for change along this type time line. The concept of kyros intervals may also have significant impact on the potential for an organization to learn, which is discussed later in this chapter. It is within the reconstruction to these contexts that the SMG can identify trends and events. El Sawy, (1985) argued that one factor affecting the predictability of the future trend of an organization is how far back that trend can be established. In other words, if the organization has been doing a particular task well for a long time, we can probably predict that it will continue to do so, given there are few significant changes to be considered. These trends and events allow the group to then explore possible future directions for the organization that will comprise possible ideals. Ideals are then derived by employing best and worst case scenarios regarding possible future conditions the organization may have to deal with. From these scenarios, ideals can set that speak specifically to the desired future of the organization that are both realistic as they are based upon historical context and clear as they are based upon realizable scenarios. The authors contend that the creation of ideals allows the organization to formulate options that are historically and realistically based but at the same time leaves room for creative thinking regarding opportunities for the organization.

Stage Two: Situational Assessment

While it is important for the organization to look forward based upon its past, it is also important to pay close attention to the present context it operates within. The process employed is based upon Ansoff's (1981) development of the process for identifying strengths, weaknesses, opportunities and threats (SWOTs). A survey or group process is employed to gather perceptions of these attitudes within the organization. They ascribe to the Harvard policy model (1983), in which the situational assessment is directed towards key stakeholders rather than "just senior managers" (page 178). This model identifies strengths and weaknesses as internal to the organization while threats and opportunities are conditions manifested by social obligations and mandates that impinge on the organization. Nutt and Backoff vary from this model by stating that strengths and weaknesses can come from both internal and external sources for public and nonprofit organizations. This variance is due to the differences between the private and public sectors. A private organization operates within a realm where they are relative tightly controlled with few external linkages in terms of responsibilities and decisions. While public sector organization must cope with relatively loose control and multiple external linkages as funding, directions and even survival may be determined by external entities such as legislatures, courts and public forums (Bryson and Crosby, 1991). The same rationale is used to state that threats and opportunities can manifest either from within a public sector organization or without.

Stage Three: The Issue Agenda

The first two stages are about setting the context for stage three in terms that an organization must understand who/what it is about from both a historical and present perspectives before it can realistically determine where it wants to go and what issues should be addressed to get there. An issue is defined as "a difficulty that has a significant influence on the way the organization functions or on its ability to achieve a desired future for which there is no agreed-upon response (Ansoff, 1980). For a public sector organization, issues can be either external or internal or perhaps both as authority, funding and direction can be an amalgam also. It is during this stage that Nutt and Backoff utilize the process for analysing issue tensions discussed earlier to elicit critical themes and issues that must be addressed so that an organization may move toward its goals.

Stage Four: Strategic Options

Nutt and Backoff use SWOT analysis again at this stage to explore the dynamics created by the tensions exercise above. The SMG examines these tensions in terms of identifying actions that allow an organization to utilize its strengths and/or address its weaknesses and/or position itself to take advantage of opportunities and/or deal with a threat. Actions that address more than one or perhaps all SWOT concerns are particularly powerful as they could be synergistic (Ansoff, 1980).

A strategy is identified as a collection of actions that have a common theme. Strategies also appear to address the ideals developed in stage one and perhaps these strategies should be tested against them to ensure continuity in the process, but the authors do not discuss this. The dynamics or relationships between actions that can be identified as strategies are developed through the application of the tension process. Nutt and Backoff state "the inference that springs from joining the SWOT's with an issue, framed as a tension, leads to more innovative strategic actions than other approaches we have tried" (page 189).

Stage Five: Feasibility Assessment

This stage is particularly important to public sector organizations as they must consider the political, financial and legal implications of changes which often is even more important to success than the normal private sector focus of customer and staff. To address these concerns, they utilize a process that explores who will be affected by a strategy and what those parties would have to contribute in order to effect a successful outcome. They state that "Stakeholder and resource analyses clarify the range of joint commitments that must exist or be built between the organization and its stakeholders and resource suppliers to successfully implement the strategy."

In order to identify the key stakeholders for each strategy, they have devised a process that identifies each stakeholder in terms of relative importance to the strategic outcome and the relative amount of support that stakeholder has for the strategy. The process begins by having the SMG develop a list of stakeholders important to the issue with a brief description of why they are relevant. The examples they use as descriptions are "user of services, suppliers of clients, cooperation in service delivery, costs of access and so on." They suggest that internal and external stakeholders could be identified by placing an "I" or an "E" next to their name. Once identified, each stakeholder is ranked regarding their importance and support for the issue. This information is then displayed in a 2X2 grid where stakeholders are placed relative to the issue (centre) and each other. While the authors do not discuss the relational characteristics of their scheme, I would assume this is an omission as it follows the same dialectical approach they employ throughout their work.

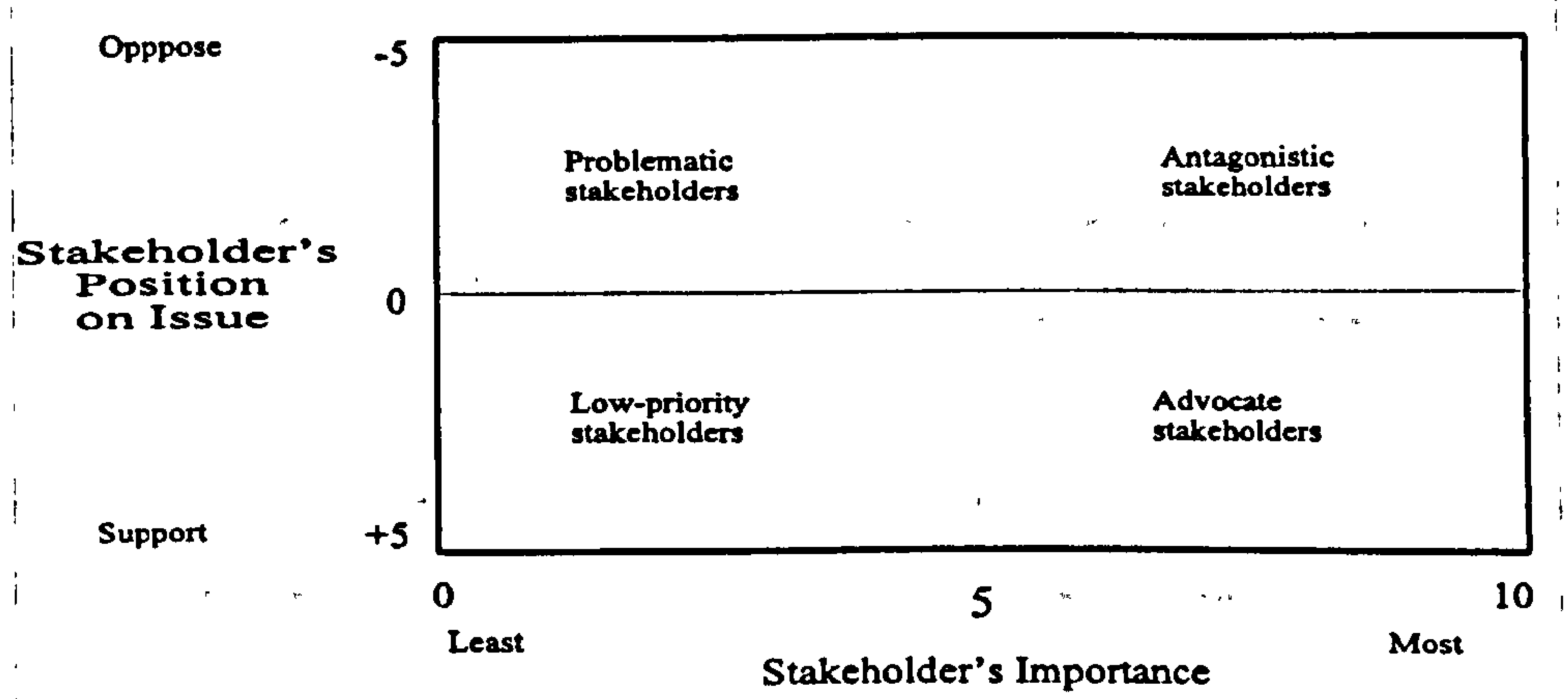


Table 4.4 Stakeholder Assessments Nutt and Backoff (table 7.2)

In order to identify the resources necessary to promote a strategy (that are controlled by stakeholders), a similar process to the one above is employed. A list of the resources necessary to carry out the identified strategy is compiled by the SMG. A supplier is then identified and a statement regarding how the resource could be acquired.

Table 4.5 Example of an SMG Resource Development Sheet:

Strategic Theme	Resource Types	Suppliers	How to Acquire

Each resource is then rated in terms of how important it is to the strategy and therefore by inference, how important it's controller. This process of ranking is produced by a relative scaling process where the least important resource/controllers are rated with a zero. Then identify the most important resource/controller and rate it 10. Then place the rest of the resources in between with the threshold of importance being five.

Table 4.5 Example of an SMG Resource Criticality Sheet:

Resource, Controller, or Code	Rating

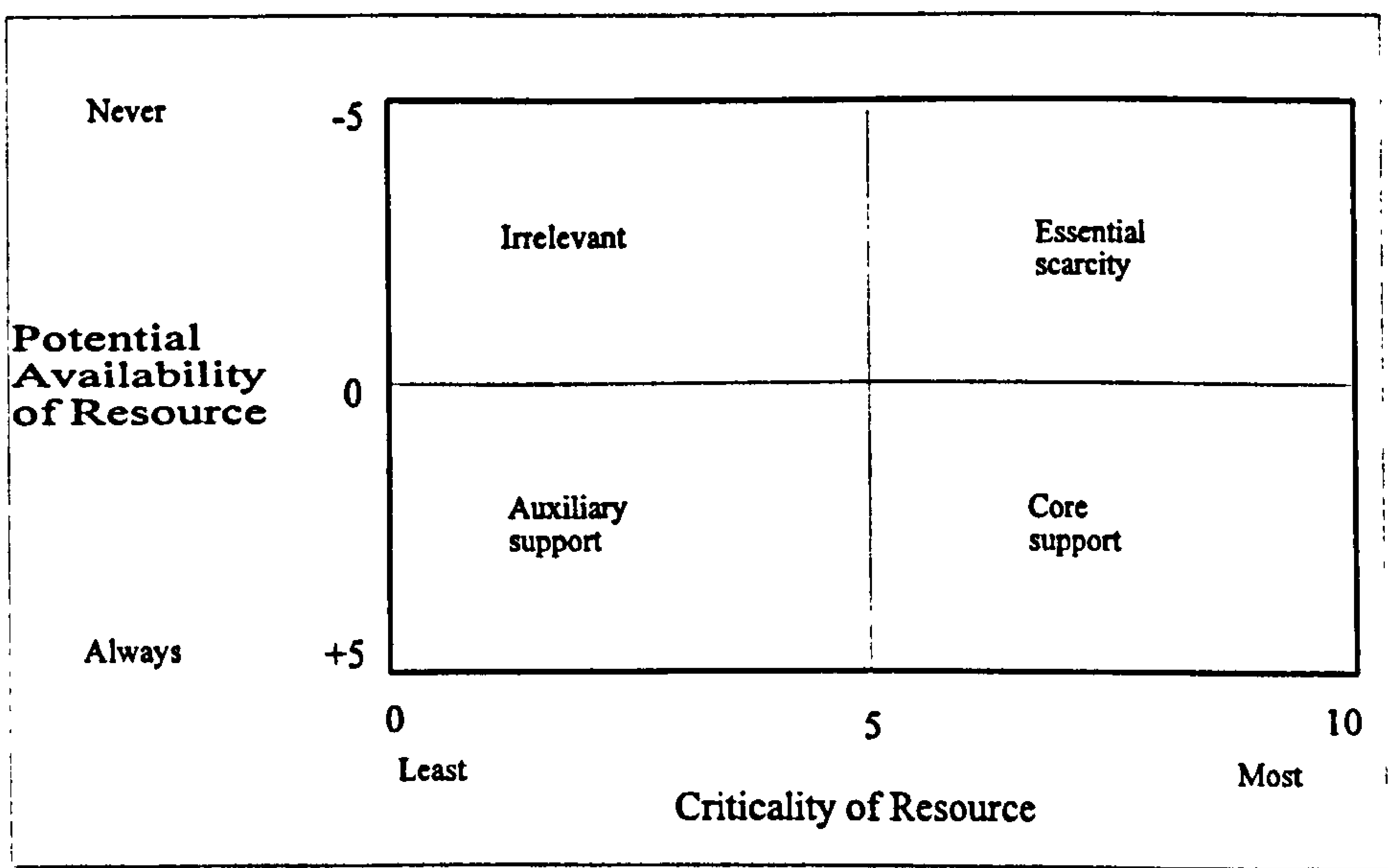
Each resource is then ranked in terms of its potential availability. The authors give the example: "ease of funding or mobilization." Easily acquired resources are ranked +5 while extremely difficult to acquire (on a relative scale) are -5. Then other resources are ranked between.

Table 4.6 Example of an SMG Resource Potential Availability Sheet:

Resource or Code	Rating

These ratings are then posted to a 2X2 grid (below) which rank's resources by potential availability and importance to the strategy. The grid identifies the resources as one of four types. Resources that are most important to the strategy yet are hard to obtain is designated *essential scarcity.* Ones that are easily obtained but essential is designated *core support.* Ones that are not important to the strategy and are easily obtained are *auxiliary support* and ones that are not important and are hard to obtain is designated *irrelevant.* The SMG can then focus on the essential resources that must be obtained (and who has them) in order to successfully implement its strategy. The authors make a particular point of using this procedure as a sort of "reality" test to ensure the strategy is viable.

Figure 4.3. Resource Assessments, Nutt and Backoff (figure 7.6)



If a resource is both critical to the strategy and hard to obtain, the SMG should seriously consider its options.

Stage Six: Implementation.

This stage is the fruition of the five previous ones in that developed strategies are implemented in a manner that allow for the best chance for success. Nutt and Backoff state that the objective of strategic management programmes is to "monitor and evaluate stakeholders' predicted actions and to manage resource suppliers." There appear to be two separate efforts within this stage. Both utilize the 2X2 grids developed for stakeholders and resources. The authors advise that the tactics for managing both grids follow similar lines of reasoning. Each category is then examined to determine overall themes that may exist by comparing and contrasting the stakeholders within. Stakeholders that are determined to be the most approachable within each category are considered to be starting points for developing action plans to address the themes. They recommend a series of tactics for addressing each category with a primary focus on the antagonistic category which contains stakeholders that are both important and in opposition to the strategy. The majority of the procedures (five of the six discussed) deal with identification and blocking of antagonistic coalitions and preventing the undermining of other category stakeholders; the control of information to so they are "kept in the dark;" and utilizing scenarios to anticipate objections and possible negative reactions to the strategy (Bardach, 1977). The final tactic deals with "engaging selected antagonistic stakeholders in bargaining and determining strategic changes that will ensure their neutrality, if not support."

A summary of these various tactics might be that an organization should do what it can to limit negative impacts on the strategy by adversarial stakeholders. This approach clearly views stakeholders as an outside force that should be managed in order to increase potentials for a successful solution. It does not consider options for including stakeholders in the solution. Rather, it relies on cooption and manipulation. Most important, the authors make no attempt to consider changing the strategy so that a win-win scenario exists and antagonistic stakeholders buy in.

Potential advocates are encouraged by providing favourable information; co-option of key stakeholders into the SMG process; and asking stakeholders to sell or arbitrate with other stakeholder categories.

The Problematic stakeholders' tactics are largely defensive so the SMG has considered potential threats from coalitions and possibly targeting moderates for education regarding the strategy. It is interesting to note that the SMG is encouraged to alter the strategy so that strongly negative stakeholders "opt out."

Low-priority stakeholders need to be managed only when some special condition exists that promises some potential for coalitions.

As Nutt and Backoff argue that one of the reasons to employ strategic management techniques is to marshal scarce resources to focus on critical issue areas, this advice follows this viewpoint in that it encourages the SMG to focus on the stakeholders of relative importance.

Resource management follows the same process discussed above with the SMG focussing on the essential category, followed by core support, auxiliary support and finally irrelevant. Finally resources are linked to stakeholders to further target the SMG's efforts to determine actions and feasibility.

Within the resource management discussion, the authors state, "Stakeholder management can be carried out for pro active promotional activities as well as defensive ones. Calling for support from key users and important people in the organizations authority network is often feasible and useful." This statement clearly identifies the stakeholder process within this strategic management approach as one that supports the resource requirements necessary to install strategies.

Nutt and Backoff's strategic management process appears to follow a rationale that utilizes dialectic processes to develop issues within a context that comprehends both the experiences and mandates and current situation the organization faces. It then devises strategies that are evaluated by their resource needs and the stakeholders necessary for success. Finally, they promulgate the strategy based upon the resource/stakeholder analysis.

However, it does not appear to me that the stakeholder and resource management process the authors have developed necessarily requires that the first four steps of their process be initiated. Their process seems to have three phases.

1. Issue definition (stages 1 &2)
2. Seeking solutions (stages 3 &4)
3. Implementation (stages 5 &6)

I have described the problems with their issue definition approach which makes it difficult for me to accept it. I have also discussed the problems with dealing in the abstractions of issue tensions, which are the premise stages three and four are based. Stages five and six is really a two-step process regarding the development of the stakeholder and resource analysis and implementation of the plan based upon the same, which argues for five stages rather than six.

However, I have found the stakeholder analysis component of the Nutt and Backoff model particularly compelling and helpful. I have incorporated their dialectical stakeholder approach regarding opposition/support into my stakeholder model.

In an attempt to further understand this process, I was able to incorporate it into a strategic planning process John M. Bryson and I planned and facilitated for the Office of Behavioural and Social Sciences Research (OBSSR), National Institute of Health in 1995-1996. The OBSSR was created by Congress to influence the research directions of the National Institute of Health (NIH). The NIH over the years had focussed largely on what might be called "hard science" research regarding health problems facing citizens while other research found that only about ½ of the health problems facing the nation today are addressable by that approach. The other half of the problems identified are in the fields of behaviour and social science, which Congress also wants NIH to address. The OBSSR charge is to develop a plan that would begin to move NIH in that direction. John and I were employed to help OBSSR develop that plan.

Nutt and Backoff's interpretation of tensions produced appear to fall into three categories for this effort. The first deals with deciding who are going to become the principal benefactors of the new research funding directions (Equity-Transition) Second would deal with the problems arising from the realization that the $13 Billion worth of yearly research grants will not expand to meet the new research regime and some parts of NIH who has traditionally received monies will lose funding to this new initiative (Equity-Preservation). And finally, the organization itself is geared up to understand, evaluate and encourage certain areas of research will have to rethink hiring policies and grant making mechanisms in order to service this new area (Preservation-Transition).

Within that process (described in the Bryson strategic planing description) we employed several stakeholder analysis modules.

Within the initial planning phase, we excerpted the stakeholder grid from Nutt and Backoff's work. Using their technique during the planning phase would not have fit Nutt and Backoff's use of the model as they only discuss using the technique during the planning and implementation phase. But we were more interested in exploring the dialectic properties of the technique as they could be applied to the Bryson process. A group of advisers was constituted during the initial problem formulation phase that operated as a sort of advisory SMG as they had no formal links to the agency, but represented a group of key stakeholders vitally interested in the agency and its promulgation of policy. We asked this group to individually brainstorm the key stakeholders who are important to OBSSR's successful implementation. The group then rated and ranked the stakeholders relative to each other by placing them on a stakeholder grid (below) that took into account their relative importance to the strategy and their level of support. We did not use the worksheets or try to get the group to separately rank stakeholders by importance or support. We also reversed the polarity of support/oppose so that supporters who were also important were located in the upper-left quadrant of the schematic. This follows the standard mathematical format when graphing a grid where the upper right quadrant would be ++ which would also allow the group to show + support and + importance.

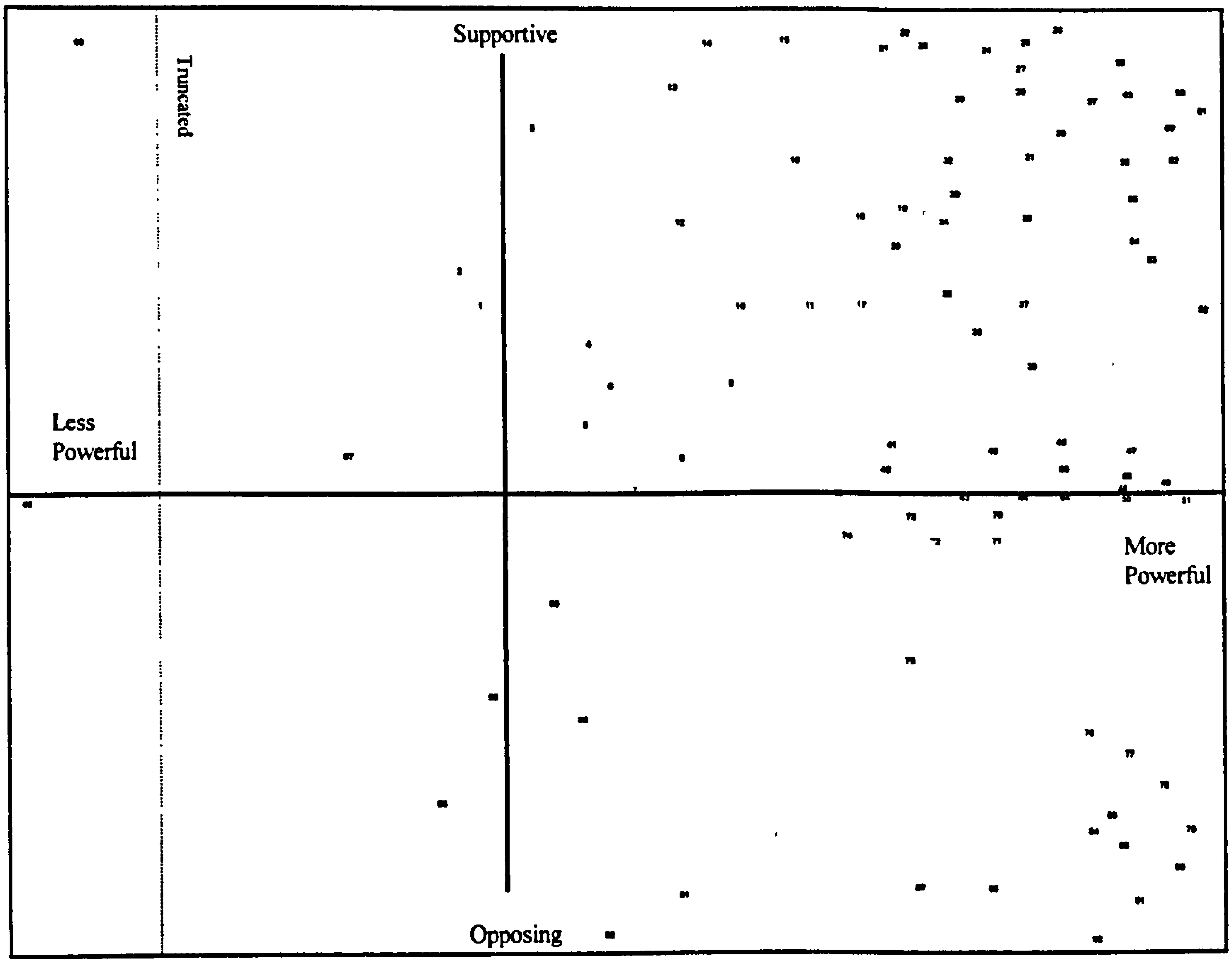


Figure 4.4 NIH Stakeholder Grid

The dotted vertical line represents a truncation of the grid as there were no stakeholders within that area.

At the beginning of this task, members were quite reluctant to proceed as they were unsure as to how this exercise was to be used. It was abundantly clear to the group that being "honest" about some of the members' relative support and power had great potential for harm not only to OBSSR, but to themselves as well if the information became public. It was only after some explicit discussion with the group regarding who would see this information and what would be done with it that the group agreed to go ahead with the exercise. For those reasons, numbers have been substituted for the actual organization and individual names on the grid used here. This substitution however does not limit the usefulness of this exercise in this context.

The group identified ninety-three stakeholders. Most locations were not disputed, but there was much discussion regarding the placement of ones located near the "0" value line representing a stakeholder's position on the issue. Again the issue of how those stakeholders would react to the perception that they were in favour or not regarding the OBSSR concept caused some degree of nervousness among the participants. The group was encouraged to give an "honest" assessment that reflected the true position of the organization rather than that reflected the appropriate "party line" as defined by Congress and the Director of NIH.

From our observations of these discussions, it would appear that stakeholders placed below the line were clearly in opposition to the development of OBSSR. Stakeholders placed just above the line may actually be in favour of OBSSR or may be located there because the group was nervous about the information leaking out. From the Nutt and Backoff perspective, perhaps the most important part of the relative location is that these people are the groups the SMG must pay a lot of attention to. The problem being that the prescriptive actions identified for each category may not be the correct ones due to misplacement.

The two most important revelations for the SMG from this process were not ones identified by Nutt and Backoff. The first had to do with how many of the very important stakeholders had a favourable disposition toward the effort and conversely, how few oppose the effort. This revelation moved the SMG into very different directions regarding development of strategies and actions. The second was how many stakeholders were involved and what an effort it was going to be to deal with them. The Director of OBSSR had worked for many months on this very agenda and had only approached a fraction of the number who were obviously necessary contacts. A new major strategy needed to be devised that could deal with this large number as it was obvious that one person simply could not handle the numbers. This will be difficult within a very small department as objectives for NIH are to sponsor research... not build bureaucracies. But of course, the organization as a whole does not face the problems a "new" agency does and the assumptions for operations illustrate another tension from the Nutt and Backoff perspective.

Conclusion

Nutt and Backoff present an approach to strategic planning and management that are founded on dialectical reasoning processes. In several areas, their process becomes quite complex and abstract, which makes it difficult to follow. Therefore using this relatively complex process with a group has not been an experience I have wanted to undertake. I also do not agree with their position that dialectical processes must be followed throughout and that there is a difference in "kind" between private sector and public sector approaches. Rather I would maintain that the difference is in degree. Yet they have managed to produce two, simple yet powerful strategic planning and management tools which I have incorporated into my approach.

CHAPTER 5

BRYSON APPROACH

Introduction

John M. Bryson's stakeholder analysis process is presented within the context of his strategic planning model for public and nonprofit organizations. In order to understand his method and intent, one must first comprehend certain central tenets of his overall approach. Bryson's approach is one of the most accepted approaches used in the public and nonprofit sectors, which in itself argues for its importance. Within this chapter, the reader should attain an understanding of the Bryson process rationale that has led him to place stakeholder analysis at the beginning of his approach. This placement allows Bryson to take advantage of stakeholder interests and perceptions that are not available to the two other authors' work. By carefully pondering the "why's and how's," of his rationale, I was able to begin to develop a deeper understanding of what an organization is and how it works.

Bryson

I should remark at the beginning that we have worked as colleagues, business partners and friends for the past eight years and have used his model and process numerous times. We have worked both as a team and individually. During this time, we have corroborated and challenged each others theories and thinking which has resulted in an enriched yet hard to dissimilate set of processes.

There are four premises that must be remarked upon as they emphasis Bryson's current thinking and underlie the rationale behind his model. The first has to do with the relative importance of the stakeholder in the strategic planning process for public and non profit organizations. Bryson has been persuaded over the past eight years that the most important factor for success in the public and non profit sector is satisfying key stakeholders. While his original edition of *Strategic Planning for Public and Nonprofit Organizations* (1988), and his subsequent book with Barbara Crosby on *Leadership for the Common Good* (1992) emphasis the importance of stakeholders, it is not until his 2nd edition of *Strategic Planning for Public and Nonprofit Organizations* that he embraces the concept to the point that it becomes an integral and critical part of his model and the strategic planning process. He states on page 70 of this book: "Indeed, I usually argue that if an organization has time to do only one thing when it comes to strategic planning, that one thing ought to be a stakeholder analysis."

Bryson has also changed his approach to initial agreements from one which implied that such an agreement must be negotiated at the beginning of the process to where he suggests that these agreements must also be carried throughout as perhaps a series of agreements. These agreements should be explicit, but not "set in stone" as parties must feel free to revisit these agreements as they "learn" through the strategic planning process.

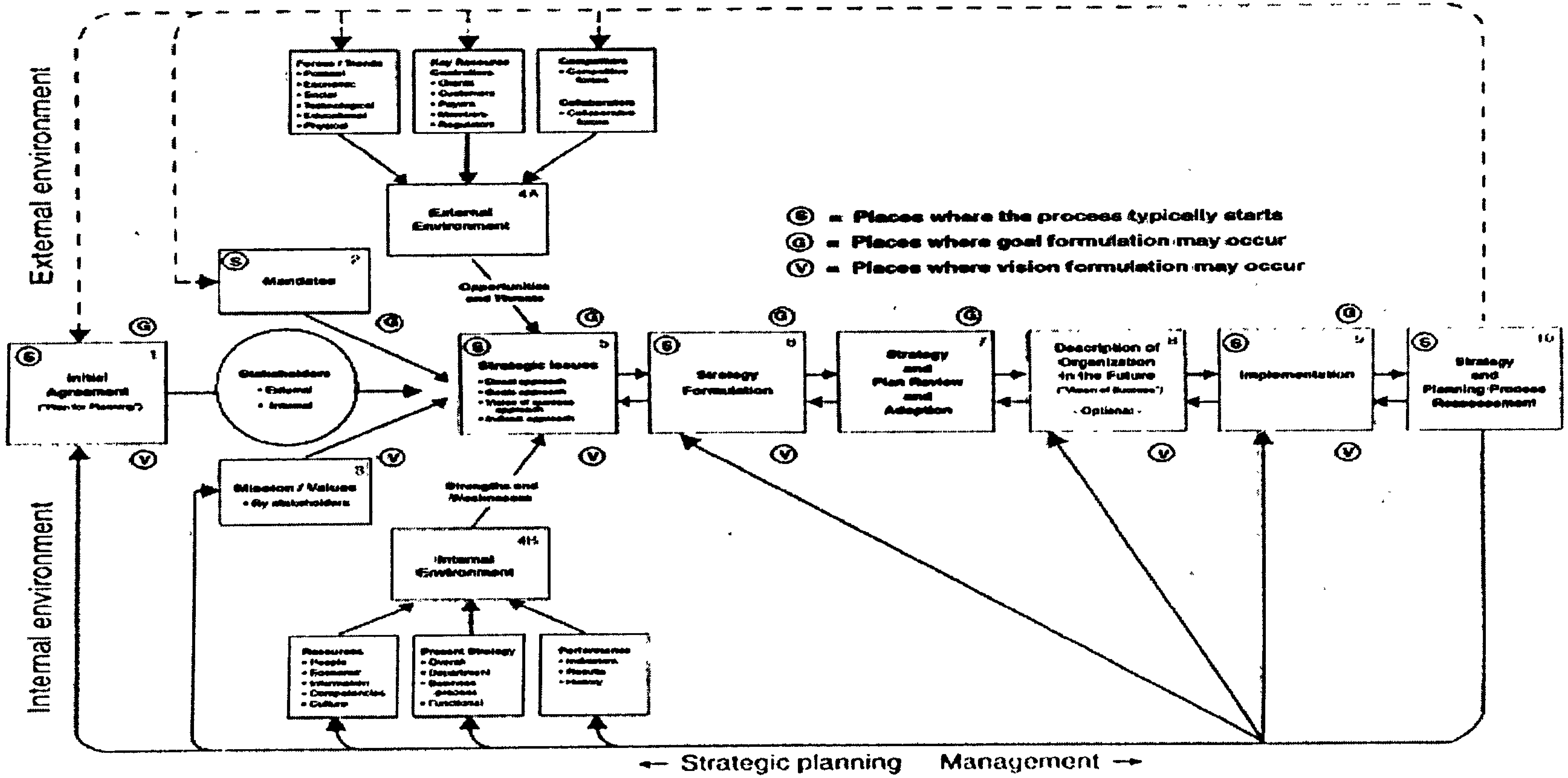
Bryson advocates that successful planning efforts must be inherently flexible and adaptive. While his process is sequenced in steps, it is important to recognize that organizations need to begin where they are ready and what is important to successful strategic planning is to recognize which step that is. Therefore sequencing is not important, but ensuring that you have addressed each step in total is.

Bryson also believes that strategic planning for public and nonprofit organizations are very different from the private sector for much the same reasons that Nutt and Backoff espouse. But he goes further to discuss the fragmentation and globalization directions of the public and nonprofit sectors which have significantly complicated an organization's ability to achieve success. In addition, he challenges the assumption that change is a continuous process, stating that what really happens is "periods of stability interrupted by significant change, uncertainty, and surprise" (page 20). Successful public and nonprofit organizations must operate during these periods of stability while being aware that their modes of funding, management and service delivery, as well as the criteria they are held to regarding success are surely to change. Bryson was a white water canoeist in his youth and has been known to use a metaphor of negotiating rapids, which are followed by quiet water... and then rapids to illustrate this change cycle.

I will briefly discuss the series of steps and the related feedback mechanisms involved in the Bryson model with particular attention to where he applies stakeholder processes or advocates attention to stakeholder needs. Below is the map of the Bryson strategy change cycle as amended for his 1995 edition.

THE STRATEGY CHANGE CYCLE

© John M. Bryson, 1995



Step 1: Initiating and Agreeing on a Strategic Planning Process

Many authors have asserted that gaining the initial support of key decision makers within an organization is critical to the success of a strategic planning effort (Bryson, 1995; Olsen and Eadie, 1982; Bryson and Roering, 1988; Nutt and Backoff, 1992; Schein, 1992; Eden and Huxham, 1993). Explicitly negotiating this agreement not only ensures commitment of the key decision makers but sends a signal to other potential actors that this process is important. Bryson suggests that "some preliminary stakeholder analysis" should be carried out during this step to ensure that the core group that will shepard the process is identified. This group is usually small and comprises the key people necessary to move the process forward and gain initial commitment. This initial agreement might manifest as a series of agreements that reflect adjustments necessary to accommodate the concerns of key stakeholders that are progressively brought "on board." This group operates in much the same fashion as Nutt and Backoff's Strategic Management Group (SMG). Bryson states that "an effective initial-agreement helps leaders, managers, and planners raise and resolve key issues. Discussion of these issues helps effective political coalitions coalesce." If no initial agreement is executed, he warns the planning effort will be fruitless as issue development and discussion will be random, will not marshal necessary resources and will not produce effective action (Cohen, March and Olsen, 1972; Kingdon, 1995).

Step 2: Identifying Organizational Mandates

Most organizations are both empowered and constrained by a variety of formal and informal mandates the must address in order to be successful. Bryson finds that most organizations and members do not have a clear idea of what these are. For example few members of any organization have read its charter, legislation, contracts, partnership agreements, or even Board decisions that comprise the formal mandates. It should not be surprising that these same organizations also do not comprehend the informal mandates placed upon them either. These mandates could be political expectations, cultural imperatives, traditions, etc. If the organization does not know that they are supposed to be doing something, they probably will not be doing it. He states that an investigation of these mandates will generally surprise the organization as most members will find they are actually less constrained by these mandates than they had believed.

Step 3: Clarifying Organizational Mission and Values

A stated mission of an organization should reflect the portfolio of mandates, values, political and social needs, and expectations that key stakeholders hold regarding its successful operation. The organization's mission in effect, represents the justification of its existence which helps to channel discussion and actions considered during the strategic planning process. Given how important such a statement is, it follows that strategic planning process should spend considerable time and resources ensuring its comprehensiveness and accuracy. Bryson argues that the critical component for developing a mission statement is negotiating with and therefore satisfying the expectations of key stakeholders.

A stakeholder is defined as "any person, group, or organization that can place a claim on an organization's attention, resources, or output or is affected by that output." Bryson's definition is one of the most encompassing ones found within this literature as he implies that affected parties also must be included. It is founded on his assertion that "the key to success for public and nonprofit organizations (and for communities) is the satisfaction of key stakeholders." He makes no temporal qualifications to this statement which I would imply allows him to include the "affected group" as they have the potential to claim their "stake." Bryson also asserts that attending to stakeholder's concerns is an ethical necessity as only be doing so will the organization be able to act ethically (Lewis, 1991; Freeman, 1985).

This would seem to make sense as success for public and nonprofit organizations is based both upon current and future considerations of the actions currently taken by the agency. Therefore an organization must take into consideration how future key stakeholders may evaluate their performance. An example of this might be the issue of campaign finance reform currently causing many politicians and parties so much trouble today. The current view of appropriate behaviour has changed markedly over the past two decades so that activities that were considered acceptable earlier are now unthinkable. This change did not happen in a vacuum as there were many stakeholders raising these issues for years who were ignored. Now these stakeholders have coalesced into powerful interest groups that have redefend expectations... for which these past actions are now being judged negatively. If those parties had attended to stakeholders who were "affected" by their actions, they would have faired much better in terms of present and future contingencies.

Bryson employs a process I call the Stakeholder => Criteria => Evaluation process that utilizes a snow card (Greenblat and Duke, 1981; Johnson and Johnson, 1991) or Nominal Group Technique (Delbecq, Van de Ven and Gustafson, 1975) to generate lists of stakeholders. This process is straightforward and inclusive so that all group members are insured their input will be included. While it is clear that this technique is well embedded in the Bryson model, it is also capable of being excerpted. As Bryson maintains, the separate process need follow no special order, which allows me to apply the following process to the Boston case.

Stakeholder => Criteria => Evaluation Process (Using the snowcard technique)

A. Identify who the organization's stakeholders actually are.

1. Ask the group to individually brainstorm all stakeholders

2. Use example (see figure: A Stakeholder Map for Government)

3. Encourage members to consider future generations as well as internal (to the organization) and external stakeholders.

4. Record each stakeholder on one snow card

5. Have the members place their snow cards on a wall (affixed with tape or blue tac)

6 Have the group arrange the snow cards in categories or groups that represent a commonly agreed upon theme or coalition.

7. Have the group label each category or group with a word or phrase that is representative of all stakeholders within the category.

B. Specify criteria stakeholders would use to assess the organization's performance

1. List each group on a flip chart sheet.

2. Along the left ½ side of the sheet list the criteria.

3. The group could guess what these are or could ask the stakeholders.

4. Each stakeholder within the group should be queried for criteria.

C. Make a judgement regarding how well the group believes the stakeholder thinks the organization is performing against the specified criteria.

1. Use a simple grading system such as doing well or poorly, or perhaps an A-F scale

2. Encourage a discussion about possible strengths and weakness possible within each criteria.

If time permits or circumstances mandate:

D. The group may discuss the relationship the stakeholder has to the organization

1. Nutt and Backoff 2X2 stakeholder grid (Nutt and Backoff, 1992).

2. Finn Stakeholder Influence Map, (Finn, 1995).

E. The group may want to identify what the organization could do to meet stakeholders expectations.

1. Identify resources necessary.

2. Identify communication needs.

3 Ask how important is this (are these factors important to the organization's survival?).

F. The group may want to rank the stakeholders in terms of relative importance.

1. Use adhesive dots or a magic marker dot to represent a vote (allow members to place dots on about 1/3 of the stakeholders).

2. The group might want to evaluate the stakeholders against several issues.

Step 4: Assessing the Organization's External and Internal Environments

External and internal are defined as factors that are or are not within the control of the organization. Internal environments are examined to identify strengths and weaknesses within the organization. External environments are examined to identify opportunities and threats the organization may embrace or face. (Pfeffer and Salanick, 1978).

Stakeholder analysis is especially helpful when exploring the external environment. Bryson states: "For external stakeholders in particular, these criteria typically relate to performance. If an organization cannot effectively meet its stakeholders' performance criteria, then regardless of it's "inherent" worth, the stakeholders are likely to withdraw their support." Organizations must address these inherent threats and opportunities posed by stakeholder beliefs if they are to sustain their support.

The objective is to identify what the organization does best (comparative advantage) and what it does not do well. These activities are then compared and contrasted with stakeholder expectations using SWOT analysis to surface strategic issues.

Step 5: Identifying the Strategic Issues Facing the Organization

Strategic issues arise out of conflicts generally around the "whats, hows, whys, wheres, whens and whos" that define an organization's activity. The previous four steps are designed to evoke real, current or potential conflicts that must be addressed to be successful by examining the organization from the outside in (stakeholder => criteria => assessment) and the inside out (strengths and weaknesses). Strategic issues are defined in a three-step process:

Issue Generation Process.

A. Create a short, succinct definition in the form of a question that is no longer than a few sentences.

B. List why this issue poses a fundamental challenge to the organization.

C. Create a list of consequences the organization will face if it does not of fails to deal with the challenge.

This process allows the organization to make key decisions regarding present and future directions of the organization based upon the relative importance of each issue within the context of the organization. In sum, this process allows the group to focus on what is genuinely important to the organization in terms of its survival and success by allowing the group to compare and contrast these issues relative to each other. Members then rank the issues by present and future importance to the organization by using a process of voting as described above.

Step 6: Formulating Strategies and Plans to Manage the Issues

Bryson defines a strategy as "a pattern of purposes, policies, programmes, actions, decisions or resource allocations that define what an organization is, what it does, and why it does it." These strategies can vary by importance, time frame and level within the organization. These strategies are developed to deal with the strategic issues identified above.

Bryson uses the SODA process developed by Colin Eden and his associates. (Eden and Huxham, 1988; Eden, 1989; Eden, Ackermann, and Cropper, 1992; Bryson and Finn, 1995) to explore strategies within the context of actions necessary to address them, the issues they are related to, and the organisational goals they support. Each important issue is examined and strategies are developed that may address one or more of the issues. Once the strategies are sufficiently elaborated so that members understand their context both in terms of their perspective and others, members are then able to decide which strategies are most important and what order (if any) they should be undertaken.

Step 7: Reviewing and Adopting the Strategies and Plan

The intent of this step is to ensure the plan is reviewed and agreed upon by the necessary decision makers and then to declare the plan official. He states that external stakeholders should also be consulted during this phase to win their support. This process could cycle with the strategy formulation step as strategies are negotiated. Perhaps at this time, a formal strategic plan is developed, partnerships are negotiated and resource allocations are agreed upon.

Step 8: Establishing an Effective Organizational Vision

This step is considered optional. The intent of this step is to develop a vision of what the organization will look like when the strategic plan has been successfully implemented. This vision allows people to decide upon a plan base upon what its results are expected to be. Organization members and stakeholders then can begin to act and develop expectations in terms of what "will be" rather than "is" which should increase the potential for a successful implementation. A challenging yet achievable vision embodies the tension between what an organization wants and what it can have (Senge, 1990).

Step 9: Developing an Effective Implementation Process

This step acknowledges that change does not "just happen" whether it is a good idea or not. Organizational development and change must address problems of inertia by planning the implementation of the plan. Planning the plan ensures that all parties necessary to implementation understand what their part is towards the success of the organization.

Bryson, Ackermann, Eden and Finn (1995) discuss a variation of the "Oval Mapping Process" (see Appendix C) to further elaborate stakeholder interests and objectives. After a stakeholder has been identified and is deemed important, a map of the stakeholder's goal system could be developed. These maps could then be compared and contrasted with the goal map for the organization to be clear about what the wants, needs and expectations are. This process could also help illustrate whether the organizations' expectations of the stakeholder are realistic. When there are issues that are so complex that even this process has not clarified relationships, a role play can be enacted. Each stakeholder involved is role played by a group member, using the stakeholder's goal map as a guide. Strategic options could then be modified or implementation could be altered to accommodate expected reactions so support and therefore, success is more likely (Eden and Huxham, 1989; Huxham and Eden, 1990).

Step 10: Reassessing Strategies and the Strategic Planning Process

Mintzberg (1994a, 1994b) writes that what actually happens is seldom exactly what was planned as strategies are emergent propositions. It is important that the plan be examined from time to time after implementation to assess and reassess progress towards the organization's goals. Strategies that have not yielded success should be reexamined and changed so they meet expectations. The strategic plan itself should be reviewed in terms of what actually happens so succeeding planners can learn from events.

Bryson maintains that the organization can begin his process at any point, depending on where the organization is at that particular time and that the steps do not necessarily have to be followed in order. However the order he has arranged them in does suggest that he would advocate that the organization first consider the environment it is in before defining the problem, issue or opportunity it faces. Conversations with Bryson regarding his process tend to reinforce this observation. That environment includes both considering stakeholders potential influence on the organization as well as determining the identity of the organization. By ordering his steps in this manner, Bryson is advocating that an organization's capacity to work towards a solution to a problem, issue or opportunity is based both on who the organization perceives itself to be and also the perceptions of the stakeholders involved. This position is one that clearly influenced my starting approach (chapter two) more than did Nutt and Backoff's approach.

Bryson and Crosby, (1992) discuss an adaption of the Bryson and Nutt and Backoff processes where they link stakeholders to alternative problem definitions. While this process is not used in the book, they discuss it in "Resource D" of the book. Essentially, they map stakeholder relationships to a particular problem by placing the problem in the middle of a sheet of paper and placing snowcards of stakeholders proximate to the problem in terms of the intensity of the stakeholder's interest with supporters on the left and those who oppose on the right. Lines are then drawn between the problem and the stakeholder to define "directions of influence." Discussions are held about the nature of the influence and possible coalitions that may be formed either in support or opposition. Finally an additional set of snowcards is developed for each stakeholder indicating what solutions might be acceptable.

The process is repeated with alternative problem definitions and their associated interpretive schemes to come up with the best solution from the stakeholder position.

Conclusion

Bryson has produced a process and rationale that take advantage of stakeholder identification and analysis techniques to inform the organization regarding possible strategies and actions that would result in a higher potential for a successful outcome. By advocating that organizational success is the fulfilment of key stakeholder interests, he has essentially redefined the organization as a composite of interests that must be satisfied to a certain extent as an integral part of proceeding towards any espoused goal. Thus, Bryson as well as Nutt and Backoff have made a major contribution to organizational theory by contributing to the basic understanding of what organizations are and how they can become more successful. Bryson in particular has explored a new option for the utilization of stakeholder analysis. He has applied stakeholder analysis to the problem definition phase of the planning and management process as opposed to the traditional use of the process as a stakeholder manipulative device.

CHAPTER 6

EDEN AND ACKERMANN APPROACH

Introduction

Colin Eden has been developing his approach to Stakeholder Analysis and Management over the past 20 years. His work regarding stakeholders is partially discussed and referred to in several publications over the years as he as experimented with different approaches. Of late, he has worked closely with Fran Ackermann in developing and refining the approach. He has kindly offered to share with me the book chapters from his upcoming book on Journey Making (Eden and Ackermann, forthcoming). It is from this work that the comprehensive development of his model is best set forth and I will base most of my discussion.

Note: The Eden and Ackermann book is in process toward publication and is subject to continual revision which makes it a little difficult to get a "fix" on what they are saying. I have worked from a draft version and I will proceed based upon that work. In particular, their Chapter on Stakeholders (Chapter 6) was last updated in early November, 1996. I am quite sure there will be changes in that work as we are in regular contact regarding both the book and this thesis, but my analysis is based on their work as of these dates. Eden and Ackermann intend this book to be a comprehensive approach to strategic management that brings together what is best from the various strategic planning theories and their own work into a well-developed strategic planning matrix. The relevant issues to this thesis are why strategic planning should be undertaken, who should be involved, and what tools and procedures are used in their work.

Note: The stakeholder portions of the Eden and Ackermann forthcoming book are also available in the 1996-1997 "General and Strategic Management, Strategic Intervention Reader" from the Strathclyde Graduate Business School.

Eden and Ackermann

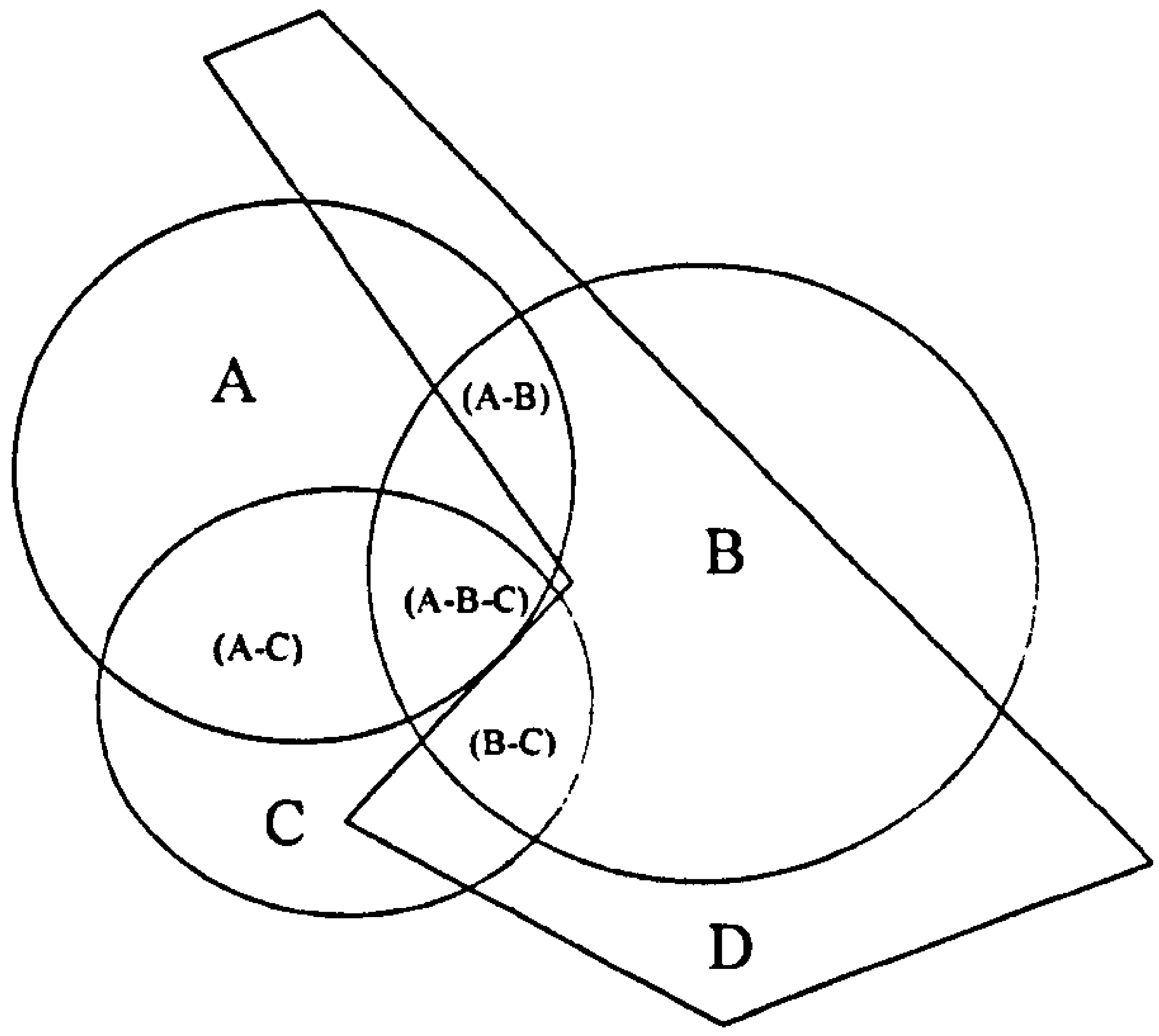
Eden and Ackermann first qualify their work by setting out assumptions and assertions regarding the operation and behaviour of organizations, based upon what they identify as the ten schools of strategic management theory. They then discuss how these theories relate and how they are taking lessons from them. Of particular importance from the perspective of stakeholder analysis is the merging of theories around organizational learning, politics and culture with rational planning theories. In effect, they posit that successful organizations position themselves to be in the right place, at the right time, with the right ideas, with the right people who have the right set of commitments. While all of the elements are important to success and Eden and Ackermann give credence to the analytical approach, they assert that the "process of strategy making and delivery is the most important element in realizing strategic intent." Regarding the strategy process, Eden and Ackermann make an argument similar to Bryson's regarding the critical need to develop both rational and emotional commitment to the processes that are developed. Eden and Ackermann observe that traditional strategic planning activities focus on the analysis component that reveals what might be called the "right answer" while giving little credence to the individuals and processes involved. They state, "Thus the role of people rather than analysis, is central to the development of the strategy." Eden and Ackermann and Bryson's approaches are based upon the observation that "you cannot change someone else's mind, rather you can help them elaborate their thinking until that person changes their own mind" (adapted from Kelly). Eden and Ackermann in particular assert that successful organizations actively seek out the best answers through processes that produce cognitive commitment (it makes sense, given what they know and it fits within the organizational culture) and developing emotional commitments. Indeed Eden and Ackermann posit that the emotional commitments are often not attended to and the successful outcome of a plan suffers. They use the term "capture both the heart and mind," which is "dependent upon the way in which strategy is developed in addition to the appropriateness or otherwise of the outcome." Given that assumption, it follows that commitment to a strategy must engage key stakeholders in a process that enables this change process to take place within a structure that encourages conversations, negotiation and then agreement and commitment.

In addition, Eden and Ackermann argue that all organizations engage in strategy (embedded strategizing) and therefore, strategy processes are endemic to all organizations (Lindblom 1959, 1968 and Mintzberg, 1994). They draw from this observation that strategic management is an inherent, emergent process within all organizations and therefore is justified and necessary, regardless of the somewhat questionable outcomes to date. While this indeed might be the case, it does beg the question: does such an ad hoc process really get an organization what it wants and how would it know? In other words, with the exception of small organizations that are well integrated, and therefore are able to embrace strategic planning at an elemental level, large organizations (size alone reduces the ability to integrate) must employ a strategy planning process.

WHO SHOULD BE INVOLVED

Another assertion they make is to advocate "the involvement of those inside the organization: those with the power to make decisions and therefore create organizational change." This argument addresses the older, traditional management assumptions that only stockholders or "customers" are to be taken into account when engaging in strategic planning. They also state: "The key point to draw from these observations is that as long as we acknowledge the considerable power of management and staff at many levels within the organization then we must also acknowledge the necessity for participation by those parties in the strategy making process." I have two concerns with this statement in terms of its support for stakeholder processes having to do with "within the organization" and "with the power to make decisions and therefore create organizational change." First, I would suggest that even these much more inclusive statements do not adequately address the need for involvement of all necessary parties as it leaves out the involvement of key "internal" stakeholders <u>outside</u> the organization. At this point, I introduce the concept of a "meta-organization" that may be necessary to consider in order for any single organization to obtain its objective. While others have used this term somewhat differently, I define a meta-organization as: an agglomeration of interested parties brought together by their common interests to devise and accomplish a strategy through processes of cooperation and/or collaboration that is desirable, but would not be feasible and/or practicable by any single entity alone. Indeed, I would suggest that there are few organizations in existence that are so completely independent of other individuals and organizations that they can devise, decide and carry out strategies completely from within. Rather, they are constantly negotiating their "meta-organizational" status between parties toward the attainment of shared strategies in appreciation of not necessarily common goals.

One of the major problems facing this new form of organization is defining (or agreeing upon) what the organization "is" in terms of what problems, issues or opportunities it will embrace and what is the commitment of the parties involved. In other words, what are the boundaries of such an organization. The traditional strategic management approach for such a question is to first determine the common interests of interested parties and then to develop strategies around that interest (Bryson 1995). Therefore, the boundaries of an organization would be construed as addressing problems, issues or opportunities of common interest to the stakeholders. This approach tends to ensure that stakeholders are addressing issues of mutual concern, which should increase the potential for commitment and success (area A-B-C in the figure below).



INTERSECTIONS OF COMMON INTEREST

(Internal Stakeholders: A, B & C and External Stakeholder D)

This approach does not however, address problems, issues or opportunities that are of interest to subsets of the stakeholders (areas A-C, A-B or B-C) potential stakeholders who are also interested (the intersecting interests of stakeholder D with A-B, B-C). The approach also does not explore the networks of relationships between stakeholder and stakeholder groups (stakeholder D has common interests with all three stakeholders). These omissions reduce the potential for the organization to comprehend the problem, issue or opportunity in the sense that it reduces the potentials for a successful outcome by not considering the gamut of stakeholder interests and support. The meta-organization requires a different approach to the problem, issue or opportunity definition that does not initially focus on defining common interests of stakeholders at the table. Rather, a meta-organization must utilize processes that define the <u>boundaries</u> of common interests that are shared between subsets and networks of stakeholders both within and without the organization. In order for a meta-organization to ensure success, all intersections by interested stakeholders should be considered in order to establish the boundaries of the problem, issue or opportunity that would increase potentials for a successful outcome. Unfortunately, most organizations do not attend to these meta-organizational problems as is discussed below. My approach as developed in Chapter 10 attempts to address these shortcomings.

An example of this behavior (and the ramifications) would be the recent union contract settlement by the maker of automobile seats for Ford Motor Company in the United States. This firm is an independent contractor to Ford and had reached a position of negotiation with the United Auto Workers union where a strike was imminent. Ford, who could choose to purchase their seats from many bidders decided to intervene as they preferred that there be no action at that time with organized labor by any company they were involved with. In essence, they directed the seat manufacturer to settle with the union which resulted in a favorable contract from the perspective of the union. If the seat manufacturer had developed a stakeholder perspective that appreciated the concept of key stakeholders that had an internal stake in the workings of their firm, yet resided outside, they certainly would have approached the negotiation with a different strategy. I should note that Eden and Ackermann's process, <u>if it was applied</u> to this question would certainly identify what they would perceive as an "external stakeholder" interest. The question would be (given the predisposition of this process to define the management group as members of the organization who would devise management plans designed to increase potentials for a successful outcome from the perspective of the organization), would this process be used by managers with that outlook?

Governmental organizations are even more interconnected and therefore have perhaps even greater reasons than the private sector to consider key stakeholders who are external to the organization, yet should be considered internal stakeholders. At the federal level in the United States for example, most agencies are required to work with representatives from the Office of Management and Budget (OMB) and the Inspector General's Office who often reside within their office, yet are responsible to other agencies with other strategies and goals.

The second issue regarding involving people with power to make decisions has two aspects. First is the question of what is meant by the statement by Eden and Ackermann that the people who should be involved in the management planning process are the ones with the *"power to make decisions."* While the *power to make decisions* infers also the power to carry out that decision, this leaves out personnel who may not make decisions but are charged with carrying them out. It would seem that the very reason for including the former would also mandate including the latter as both would be necessary to success. In other words, if the argument given above that successful strategies are largely based on commitment that evolves from the process, and this commitment cannot be developed by ordering someone to do so, then it follows that all members of an organization who are key to the success of a strategy should be included in some manner, rather than the people with *the power to make decisions*. While this argument could be interpreted to include all personnel within the organization (this is the basis for the literature on Future Search and Common Ground strategic planning techniques (Weisbord et. al. 1992, Weisbord and Janoff, 1995), some analysis would certainly be helpful to ensure the necessary stakeholders are involved to both make the decisions and carry out the strategies in a manner that moves the organization toward its goals. I would note however, that there is nothing in the Eden and Ackermann process that would preclude the inclusion of all stakeholders who have a stake in the success of an organization. In fact, Eden and Ackermann strongly maintain that this option is one an organization could undertake. Their point is that such an action is a choice that managers with *the power to make decisions* should make. My point here is that the preconditions and presumptions of the process would tend to focus this part of the process inward. Namely that once a management group is set up with the idea that their objective is to devise and implement management planning objectives, they certainly could choose to include others, based upon tools that help them understand their environment, but would there be an inherent bias set in place by the original definition of the management group that would make them tend not to?

It does appear that limiting the strategic planning process only to key decision makers with the power to make decisions would work with small, tightly integrated organizations. As in much the same manner, strategic planning works (without the need for large planning efforts) there, but is probably less feasible in complex settings for the same reasons strategic planning must be managed in larger organizations.

A related concern is the presumption that the only members with "free will" within an organization are the ones with *the power to make decisions*. I make this connection by defining the term: people with power to make decisions to also include its opposite definition. In other words the people who should not participate in the management planning process are the people who have no *power to make decisions* (Hegelian dialectic). This presumption is grounded in many literatures and perhaps this is why it is so commonly assumed as the correct mode for large organizations. It is found within the labor economics literatures that define the options for employees within a firm as either follow the rules or leave (exit voice). This literature is partly based upon the same management assumption discussed above that only the "owners" should make decisions as the rest have no "stake." This rather old view (Adam Smith 1776), commonly labeled the "production model" still has credence today for small, family owned enterprises which still comprise the majority of new business starts in the United States. Smith wrote:

> The man whose whole life is spent in performing a few simple operations, of which the effects too are, perhaps, always the same, or very nearly the same, has no occasion to exert his understanding, or to exercise his invention in finding out expedients for removing difficulties which never occur. He naturally loses, therefore, the habit of such exertion and generally becomes as stupid and ignorant as it is possible for a human being to become."

This classical management approach (not Eden and Ackermann's!) assumes that other members within an organization are perhaps some type of "automaton" whose charge is to follow some proscribed strategy and will do so correctly and without question . . . or they leave. Military organizations are also based upon the assumption that generals rule and the rest follow. In addition, the Human Resources literature on workplace motivation does identify sets of employees whose assessment of personal life priorities place their jobs at such a low priority and interest as to possibly identify them as automatons. However in large, complex organizations, the majority of workers manifest "sense making" attitudes toward their work in the manner espoused by Weick (1995). If these needs are not met, then following the reasoning given by Eden and Ackermann above, they will not develop the necessary commitment to support the strategy and probability for success is reduced.

Garrett Hardin (1993) documents the serious issues facing the nuclear power industry where the "human factor" has been deliberately engineered out (no human shows up on the production flow charts), yet systems failures are constantly attributed to human error. There are numerous documented cases of operators selling and using drugs and alcohol and sleeping on the job. These poorly trained and informed workers have no sense of their importance and indeed, criticality and therefore perform poorly when called upon to work toward at least one of the major the goals of the organization (preventing nuclear disasters). Perhaps a more graphic example would be the 1983 disaster in Bhopal India, where workers who were considered low wage "dial watchers" ran away when things went wrong, which led to between 4,000 and 15,000 deaths, countless injuries and at least $470 million in legal damages for Union Carbide Corporation.

I want to make it very clear that Eden and Ackermann's process would not result in a Bhopal situation and it is also not only fit for the military or small business operations. In fact, I would forecast that if their process had been used by Union Carbide, this disaster would never have happened as the managers would have discovered the problem and sought remedies for it. My point in discussing these events is that they are a part of a process that is grounded in the presumption that power in an organization resides at... or near the top (people with the power to decide). And that is not as others argue (Weick 1995, Bryson 1996, Ackoff 1974, Freeman 1984) that the comparative advantage of an organization engaged in planning is the inclusion of members who have an interest or stake. Groups following these authors approach would include the representation of those workers at Bhopal in the planning process, which would make the discovery of the problem inherent to the group.

Perhaps an interesting parallel to this dialectic between the two approaches is the classical interpretations of the conservative approach and the liberal approach as they are interpreted as means to govern as espoused by Edmund Burke and John Locke. Conservatives according to Burke, considered the act of governance to be one of the most important activities of a society that should be undertaken on behalf of the community only by the wisest and most informed of the community. Indeed, these chosen had a responsibility to act for the community. Therefore, the job regarding governance for the rest of the community was to help ensure the wisest were selected and then to follow their wise direction, which would be in the interest, betterment and well being of the community. Locke on the other hand, maintained that individuals (citizens) had certain rights that included the right and a responsibility (for better or worse) to participate in their own governance (during Locke's time, the term used for citizen did not include everyone, so his intent must be interpreted). I make no aspersions of direct connection of these historical perspectives to either sets of authors, other than to posit that there may be some underlying assumptions to these approaches that may have roots embedded in these very different assumptions about society.

THE EDEN AND ACKERMANN PROCESS

Eden and Ackermann construe their management process as a JOURNEY (Jointly Understanding, Reflecting, and Negotiating strategY), of which one component is strategically managing stakeholders. A brief examination of their overall process approach is helpful toward the understanding of their use of stakeholder processes.

One of the first things to understand about Eden and Ackermann's approach is that it is intended in part to develop and stimulate the process of continuous, emergent organizational learning. The concept of organizational learning is variously defined and discussed by many writers, but few have attempted to devise a process where this transformation takes place. The various definitions of a learning organization are constrained on one end by writers such as Kenneth J. Arrow (1974) who maintained that learning only takes place generationally within organizations as it is based upon education. He writes "If we think of education as the primary source of new information, then it is introduced into an organization by its youngest and newest members. Thus, we have the possibility of changes in organizational agenda induced by generational changes." And even further back in time is the writing of Pareto (1916) in which he discussed the "circulation of elites." Pareto argued that organizational change (learning) only occurred with the turnover of decision makers. Charles Handy (1989, 1993) defined learning and organizations by their culture, with limitations for certain cultures (such as power organizations) to learn as a group due to intense competition between individuals. He suggests that learning and change would take place largely by individual initiative. Bengt Abrahamsson (1977, 1993) holds that forces such as the legal interpretation of an organization require that organizations be viewed as an autocracy where the "mandator" functions as the primary (perhaps only) stakeholder and therefore organizational learning occurs through this function. While all of these authors attempt to identify learning and what this means to an organization, they do not attempt to design a process that would stimulate learning and the organizational change that might entail. On the other end of the spectrum, Peter Senge (1990) describes a process of organizational learning which relies on a "self determinate" process that encourages everyone in the organization to continue to "learn" (personal mastery) which is then channeled toward organizational learning through team learning opportunities. The objective is to increase the potentials for organizational learning to happen and to reward it when it does. While this model does appear to increase potentials for learning, it does not provide a process that ensures this learning will be valued or utilized by the organization.

Therefore, organizational learning happens from the "top down" (Eden and Ackerman, Arrow, Pareto, Abrahamsson, Handy) or the "bottom up" (Senge, Bryson); it happens generationally (Arrow, Pareto, Abrahamsson) or through the activities of competitive individuals (Eden and Ackerman, Handy, Senge, Nutt and Backoff); it happens within a hierarchical management framework within an organization (Eden and Ackermann, Abrahamsson, Arrow, Pareto); or it happens within an organization that is diffuse and segmented (Senge. Nutt and Backoff, Bryson, Handy).

Within my own work, the concept of organizational learning is only tangentially addressed as I have not fully developed the process to date and expect these aspects to be emergent. However, I am convinced the kyros intervals discussed earlier are of critical importance and would tend to support the idea that learning is diffuse and segmented as is described above. Stakeholder analysis and influence mapping are clearly tools that would stimulate organizational learning as they require the examination of the basic assumptions and relationships necessary for an organization to exist. However, the concept of an organization as a transitional object argues that successful organizations are continually examining and re-construing themselves in order to achieve successful outcomes. From this perspective, organizational learning should be continuous and pro-active, which would align with the "competitive individuals" (substitute: competitive stakeholders) approach discussed above.

I would suggest these authors (and my own thinking) vary so immensely because the concept of a learning organization is not well understood at this time. In fact, the definition probably currently resides within what Glaser and Straus (1967) describe as substantive theory stage that will provide the stimulus and direction toward the development of grounded theory.

As mentioned above what appears to be missing from some of the authors work described above is some process that can be implemented and observed to further the development of grounded theory in this area. Eden and Ackermann have developed one such process.

Eden and Ackermann view organizational learning as a dynamic created (emerges) from within an organization as individuals (with power) struggle to make sense of

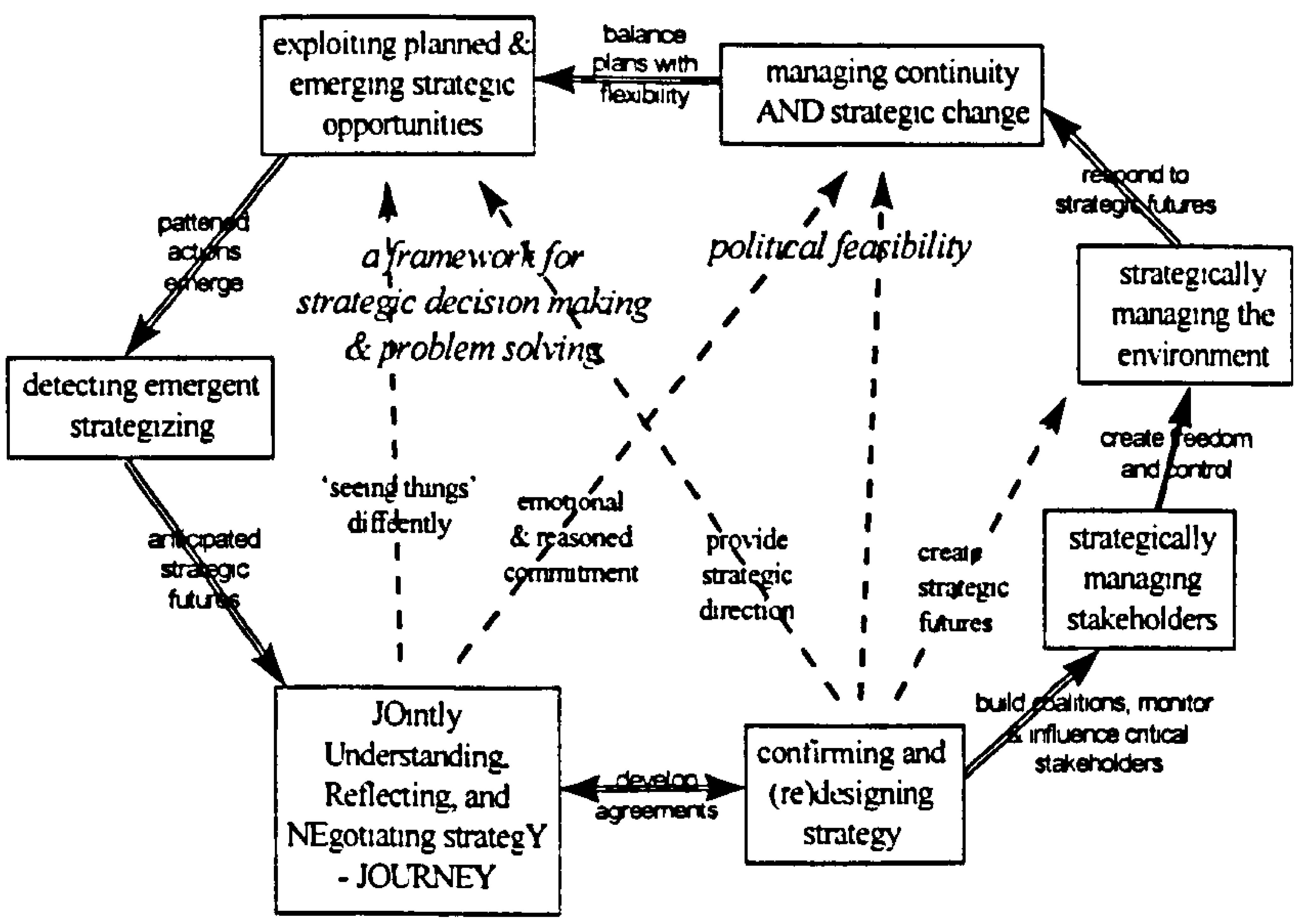


Figure 2.5 - The JOURNEY of Strategy Making & Delivery Explained

who/what they and the organization are and what they/it wants to do. Nutt and Backoff might construe this a part of their dialectical process and Bryson might call this negotiating meaning. Eden and Ackermann define the processes organizations embark upon as a micro process of strategic planning that exists within the larger (macro) context of strategic thinking and action. Figure 2.5 from their book illustrates the macro process. The boxes exist within the diagram to denote general "road signs" within the process, stating that a particularly significant set of events is happening. The double lined arrows represent the formal direction of the macro process with the dashed lines representing dynamic shortcuts taken as a result of learning within the micro process. Text that occurs outside of boxes identifies the action taken due to the dynamic organizational learning that has taken place.

Eden and Ackermann make a particular point that this process is dynamic. The model does appear to be cyclical, with the beginning of the cycle arising from the function of detecting emergent strategizing when managers anticipate possible strategic futures. So, if there is a beginning, it is within the dialectic between the two bottom boxes in figure 2.5, which also contains the micro process of strategic planning. Again, it should be noted that the authors hold the relationships between the micro and macro models to be a dynamic one, which infers that strategic management would happen within the overall context of the macro model and is not necessarily as a step in that process. Therefore, the organization could learn and change while the strategic planning process is going on as a tertiary result of the micro process as well as strategies generated directly.

Eden and Ackermann's micro process is what is commonly considered to be the strategic planning process. Indeed, the individual components illustrated in figure 2.8 (next page) from their book can be identified within Bryson's strategic planning model. The difference is how they envision the process flowing toward the development of strategies and reconciling these events with the goals, vision and mission. Within the figure 2.8, there appear to be two parallel efforts taking place. The effort that flows through the lower part of the figure, having to do with competencies and the goal system is analysis within the organization to discover what the various resources (both staff and physical plant) are and how those contribute to and define the aspirations of the organization. The upper flow that includes stakeholder and environmental analysis, addresses the exploration of variables external to the organization. It is by reconciling the resources and abilities within the organization with the potential options for action generated outside the organization the Eden and Ackermann argue that these organizations can "seize the moment" and realize ambitions that are feasible. This model is a particularly compelling one from a learning organization perspective as it allows the organization to both exist as a functioning entity, moving towards identified goals or objectives. Yet the organization incorporates as a basic function of its process the ability to "learn" through strategic planning. My stakeholder process (which could be considered a different micro approach than Eden and

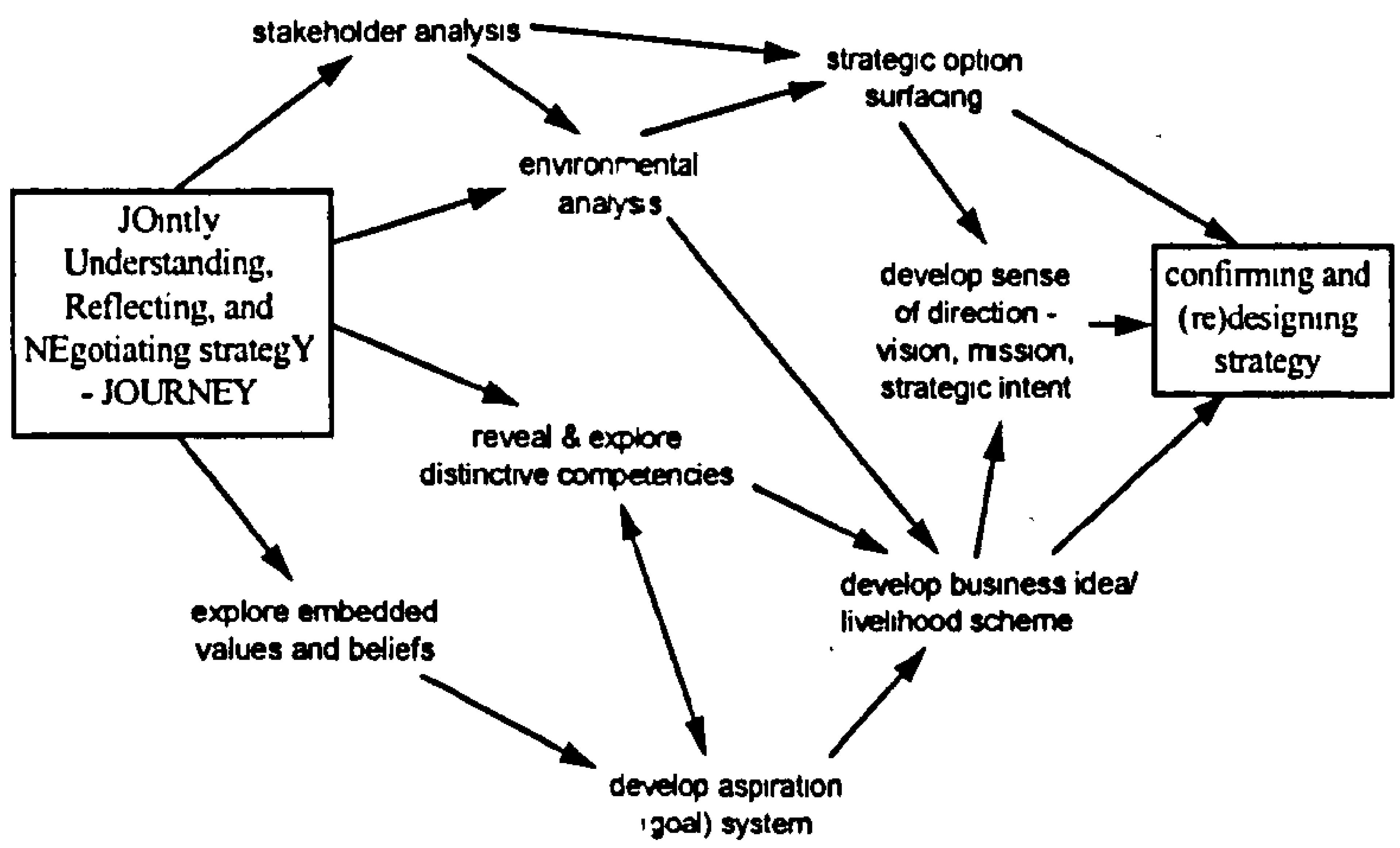


Figure 2.8 - The Framework for Developing Agreements

Ackermann's), would fit within their macro model. Indeed, their macro model infers that an organization is transformational object as the objective of the macro process is to strategically place the organization in a position for a successful outcome.

STAKEHOLDER ANALYSIS

The stakeholder analysis components of the Eden and Ackermann model (of which there are three, with a fourth used exclusively within the macro, stakeholder management module) are clearly tools to "see" outside the organization so important actors can be identified and analyzed in terms of what potentials they manifest for the organization. Indeed, this is probably the largest difference between the writers of stakeholder analysis regarding the place of the stakeholder within the organization. Freeman and Evans (1988), Ackoff (1970) and Bryson (1995) argue on one side that stakeholders have at least implicit and possibly explicit rights within an organization that require the strategic planning effort to attend to their interests. Eden and Ackermann are quite explicit regarding their approach to stakeholders: "where stakeholders are managed only as a means to pursuing strategic ends." They argue that stakeholders should "not be treated as having rights, only having power and interest. Nutt and Backoff are not very clear about this, but their model is more in line with the management of stakeholders (and therefore fewer rights) of the type that Eden and Ackermann advocate. Therefore, Eden and Ackermann would suggest that an organization should only attend to stakeholders that have both power to affect the strategic interests of the organization and an interest either in the organization or a particular strategy. Any other consideration of stakeholders would not find support within the organization as successful implementation of strategies requires powerful and interested stakeholders to be motivated. Eden and Ackermann argue that while there are ethical considerations regarding external and stakeholder relations that most organizations would want to consider, these are really strategic choices that each organization needs to explicitly make in order to elevate their interest/power ratio to ensure they are taken seriously. Stakeholders and issues who have only power or only interest are not "players" and should not be involved as strategies that address their interests will not find the necessary support or rewards to be successful. This approach is partly grounded in economic theories of "utility maximization" by individuals and the firm which argue that stakeholders are motivated and act in their own self interest.

Curiously, Freeman et. al. also base their arguments on this same principle. Their approach is that in the long term, not attending to stakeholder needs that are not necessarily powerful or interested (but should be) can have significant negative consequences as to make it necessary to give them credence. Therefore, they assert that the long term utility is served by attending to the interests of stakeholders who will be affected by strategies. And that one of the functions of managers within an organization as opposed to stockholders is their interest in the long term. In effect, stockholders are transient stakeholders whose interest is in the short term success as they and their money is "footloose" and can move at will, while managers are more invested in the long term potentials of their jobs within an organization are therefore less footloose. In effect, they assert their inherent rights of stakeholders within organizations based upon the rationale of long term utility.

Bryson's model tends to give both internal and external stakeholders, rights within the process, but this is an emergent condition based upon the perceived importance of those stakeholders to the effort by the strategy team. Therefore, these rights are assigned as part of process.

So there is a spectrum within stakeholder literature based upon perceived rights of the stakeholder. On one end is the traditional management (Developed by the Carnegie School) school approach that gives rights only to stockholders (owners) as the ones with power and interest. Eden and Ackermann add management to the equation based on the rationale given above. Nutt and Backoff include more stakeholders in their process based upon support, interest and control of critical resources. Bryson holds stakeholders are emergent based upon a political dynamic, and Freeman et. al. suggest consideration of all stakeholders affected should be considered based upon long term utility. Therefore, it is the combination of interest and power, relative to other parties involved that defines for the Eden and Ackermann process just who is a stakeholder to be considered.

SPECTRUM OF STAKEHOLDER RIGHTS WITHIN AN ORGANIZATION

Carnegie Management School Stockholder approach	Eden & Ackermann Power/ Interest Management approach	Nutt & Backoff Support/ Interest/ Resources approach	Bryson Emergent/ Political approach	Freeman et. al. Affected Stakeholders approach

Little or no Stakeholder Rights ⟵⟶ Stakeholders have intrinsic rights

<u>THE POWER/INTEREST GRID</u>

Given Eden and Ackermann's approach which defines a stakeholder to be considered as one that has some relative modicum of both power and interest, it follows that they would have devised a methodology that would first analyze the list of potential stakeholders in terms of these variables. The first technique is a "power v. interest grid" which allows for a relative examination of potential stakeholders. Power is defined as the extent which the actor can influence the successful outcomes of strategies or the organization's progress toward its goals. Interest is defined as to what extent the stakeholder would be interested in exercising its power, based upon either perceived strategies or goals of the organization.

The third variable to be considered is the relative measurement system incorporated to assess the level of power and interest (power and interest are the first two variables). These terms are not mutually exclusive from Eden and Ackermann's perspective as by themselves they would not have any meaning for the organization. For example in the automotive industry, a very powerful competitor in terms of markets and politics would probably have no interest if another firm decided to purchase a controlling interest in the tobacco industry as its interest lies in the area of automotive manufacture. On the other hand, they probably would have a very real interest if one firm wanted to merge with another automotive firm and might then choose to exercise their market or political power. Eden and Ackermann would also assert that an actor that was very interested, but had no power to effect (either as an individual or potential part of a coalition) outcomes is not one to be considered. Within the United States, there is the policy of "eminent domain" which allows government to act against the interests of private citizens in pursuit of the larger interests of the public. For example, whole neighborhoods have been razed to allow for construction of sports stadiums and shopping centers, and natural resources (such as wetlands) have been exploited and destroyed for short term commercial gain. This concept is well grounded in law and has survived many United States Supreme Court challenges of the years. Yet, this whole concept seems to fly in the face of a constitutional democracy buttressed by the Bill of Rights that holds individual rights at a higher level than perhaps any other government in the world. The answer is painfully obvious from the perspective of Eden and Ackermann. Namely, a few homeowners whose home are in the way of a new development and the potential for new jobs, or some poorly understood wetlands generate a great deal of interest for those few involved but they have no "power" to affect the strategies or objectives of the relatively powerful organizations involved. While Eden and Ackermann and others would surely have personal, ethical concerns regarding such behavior. they maintain that these are choices that powerful organizations choose to entertain. For the purposes of stakeholder analysis, it seems axiomatic that the measurement of the levels of power in interest must be relative to other actors involved. Yet, it would be a mistake to ignore these relative measures as they represent a combining of two variables that are not necessarily comparable or measurable and could represent a high variance. For example, we do not purchase three gallons of interest and two pounds of power, but to a certain extent, this is what we are doing in this exercise. So it is by allowing powerful managers (those *with the power to decide*) to assess these terms within a continuum of possible locations that managers are able to make sense of the combined potentials.

A fourth variable that is not necessarily evident from the grid is the assessment of whether the stakeholders identified are supportive or in opposition to the strategies or organizational goals being examined. Eden and Ackermann accomplish this by identifying stakeholders with green or red (respectively), with blue for issue specific to indicate their support. While this is process seems limited as it has only allows for choices of support or opposition, its weaknesses are addressed in the subsequent processes.

Eden and Ackermann divide their grid into four categories that allow managers to focus specifically on the stakeholders relevant to their situation, which are principally those called "players" as they have both power and interest. It is the objective of their stakeholder module to ensure that the players category contains as many supportive stakeholders as necessary, while limiting non-supportive stakeholders. This may be accomplished in various ways, but the most obvious from this grid is converting potential supporters in the three non-player boxes into players, while managing non-supportive players and saboteurs out of the player box. Eden and Ackermann discuss five aspects of this grid. The grid:

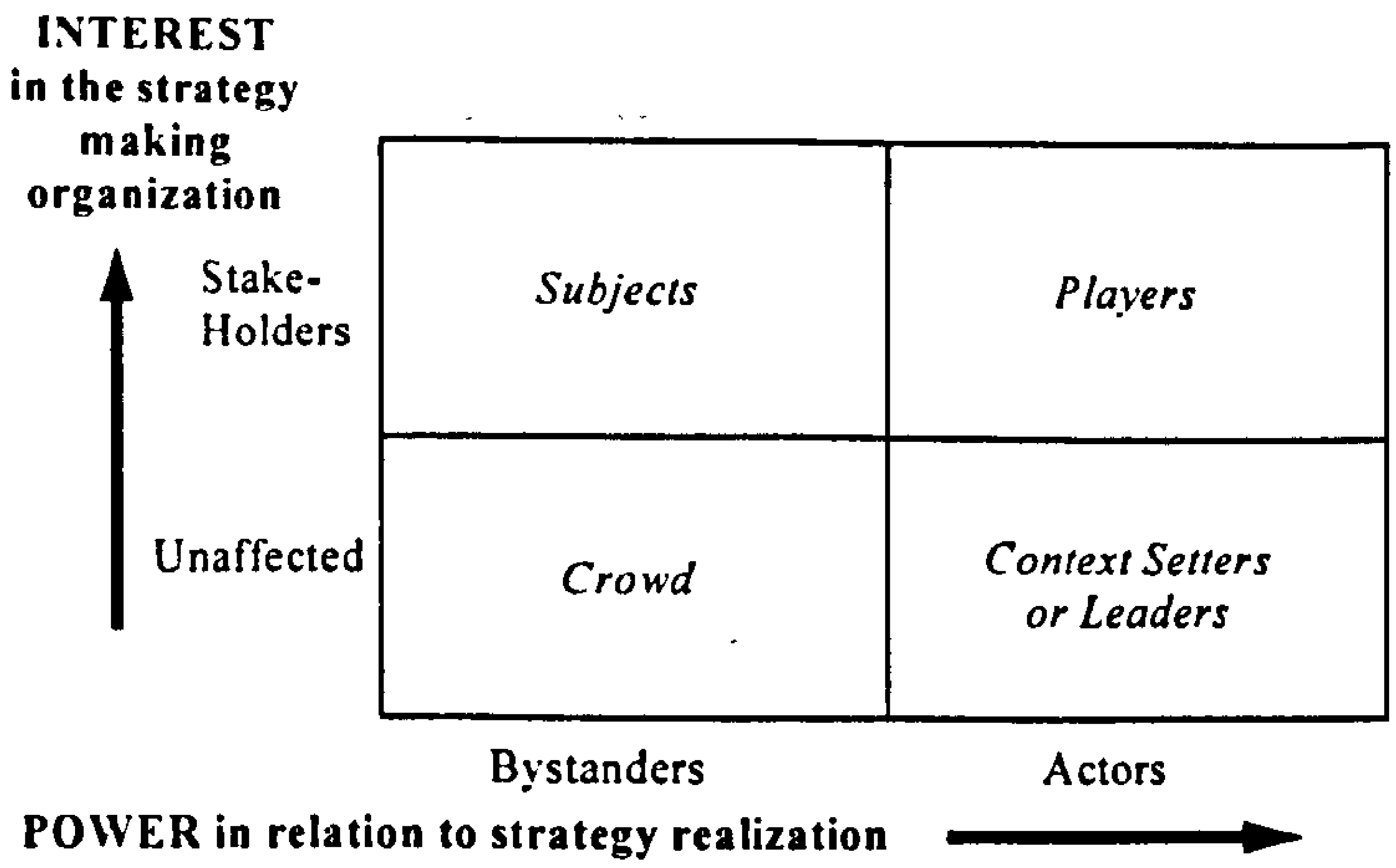


Figure 7.1 - Stakeholder Analysis: the Power/Interst Grid

1. Allow managers to separate the relatively important stakeholders from the long list of potentials. The argument is there are scarce time and resources that should be focused on the particular stakeholders relevant to the strategy or other issue being considered (a problem illustrated by the "can't see the trees for the forest" metaphor).
2. Identifies stakeholders that should be seriously considered in terms of their real ability to affect the strategy or organization.
3. Allow managers to explore opportunities and actions to persuade key stakeholders to be supportive or not be interested in the strategy or activity being considered.

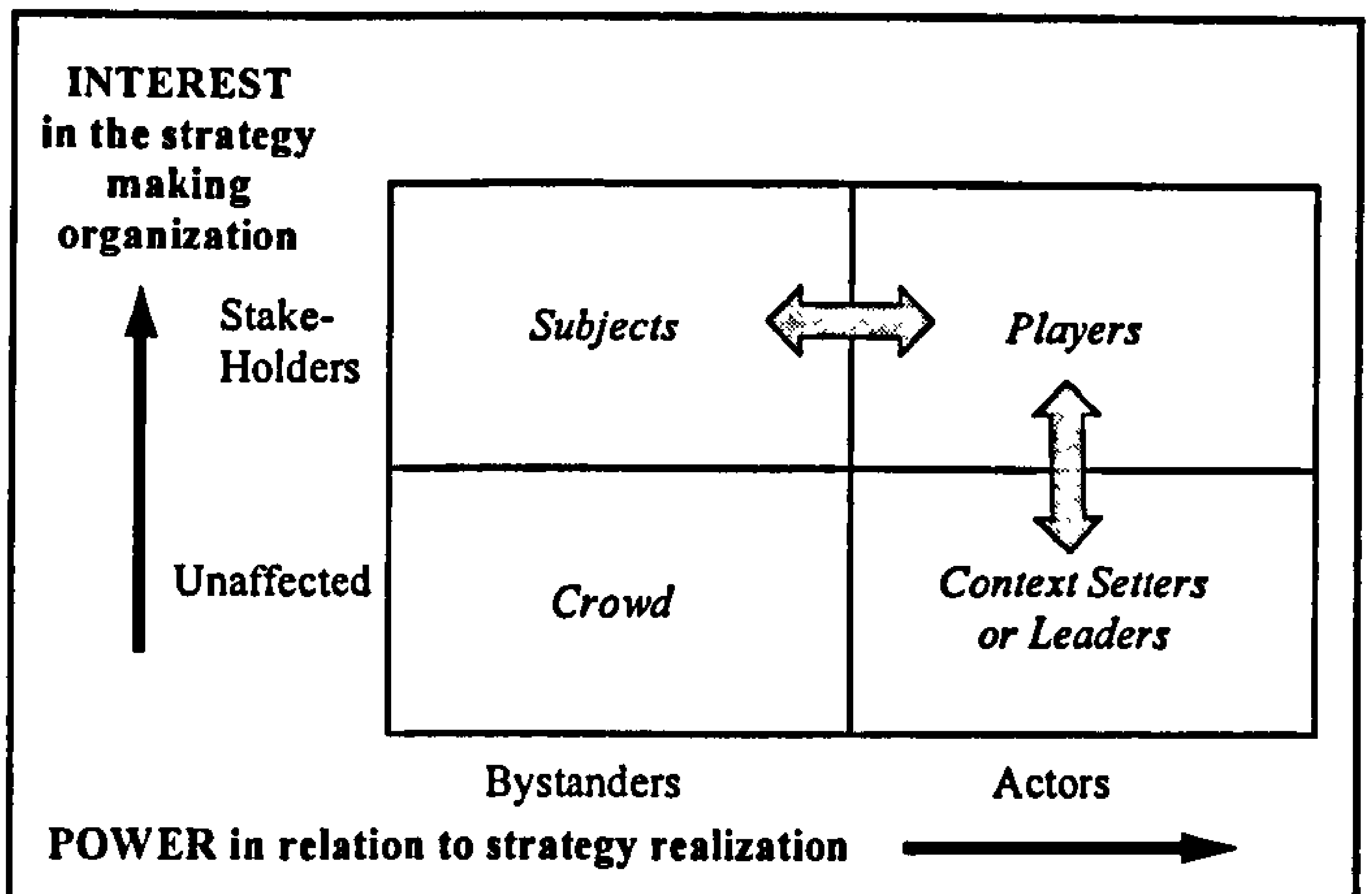


FIGURE 1.2 - Stakeholder Analysis: the Power/Interst Grid

4. Allows for discussion regarding the relative combinations of power and interest that comprise the identity of each stakeholder. Eden and Ackermann make it clear that just because two stakeholders are placed next to one another on the grid does not connote they are similar. These differences must be explored.

5. Conceptualizing by managers of potential for movement of stakeholders between categories encourages managers to begin to think dynamically in terms of changing postures over time and situation. In addition, this creates a forum for the consideration of possible coalitions either in favor or against building.

Information on aspects 1 and 2 naturally evolve from the construction of the grid. Items 3-5 are exercises that could be undertaken, using the grid as a discussion platform. They do not however appear to necessarily flow from the grid, so these aspects should be particularly attended to. They illustrate these processes by the figure below, which is the objective of their interest in stakeholders. Namely, the organization should explore strategies of empowerment and/or interest that would:

1. Move "subjects" who support the interests of the organization into the "players" quadrant

2. Remove power from players who oppose the interests of the organization so they move into the "subjects" quadrant.
3. Move Context setters or Leaders who support the interests of the organization by increasing their interest.
4. Remove "players" who oppose the interests or the organization by reducing their interest in the organization
5. Move members from the "crowd" who support the interests of the organization to be "players" by increasing both their power and interest.
6. Removing "players" who oppose the interests of the organization by reducing their power and interest so they become members of the "crowd."

Finally, a quick overview of the relative positioning of stakeholders on the grid would readily inform managers about the relative difficulty of accomplishing a particular strategy or action that should be considered carefully regarding the amount of energy and planning necessary to carry on. Is the objective worth the resources?

THE SANCTIONS/INTERESTS STAR DIAGRAM

Once key stakeholders have been identified with the power/interest grid and subsequent exercises, it is important that managers attempt to understand how these stakeholders perceive the activities and particular strategies of the organization as their potential to affect those activities and strategies is significant. There appear to be at least three major outcomes from the star diagraming process. Managers are able to devise actions that will influence these stakeholders and therefore increase potentials for a successful outcome. But perhaps more importantly, they gain a cognitive understanding of how the macro process within and without the organization affects their work and can begin to act correspondingly. In addition, specific assumptions regarding power and interest developed in the previous process are tested for validity.

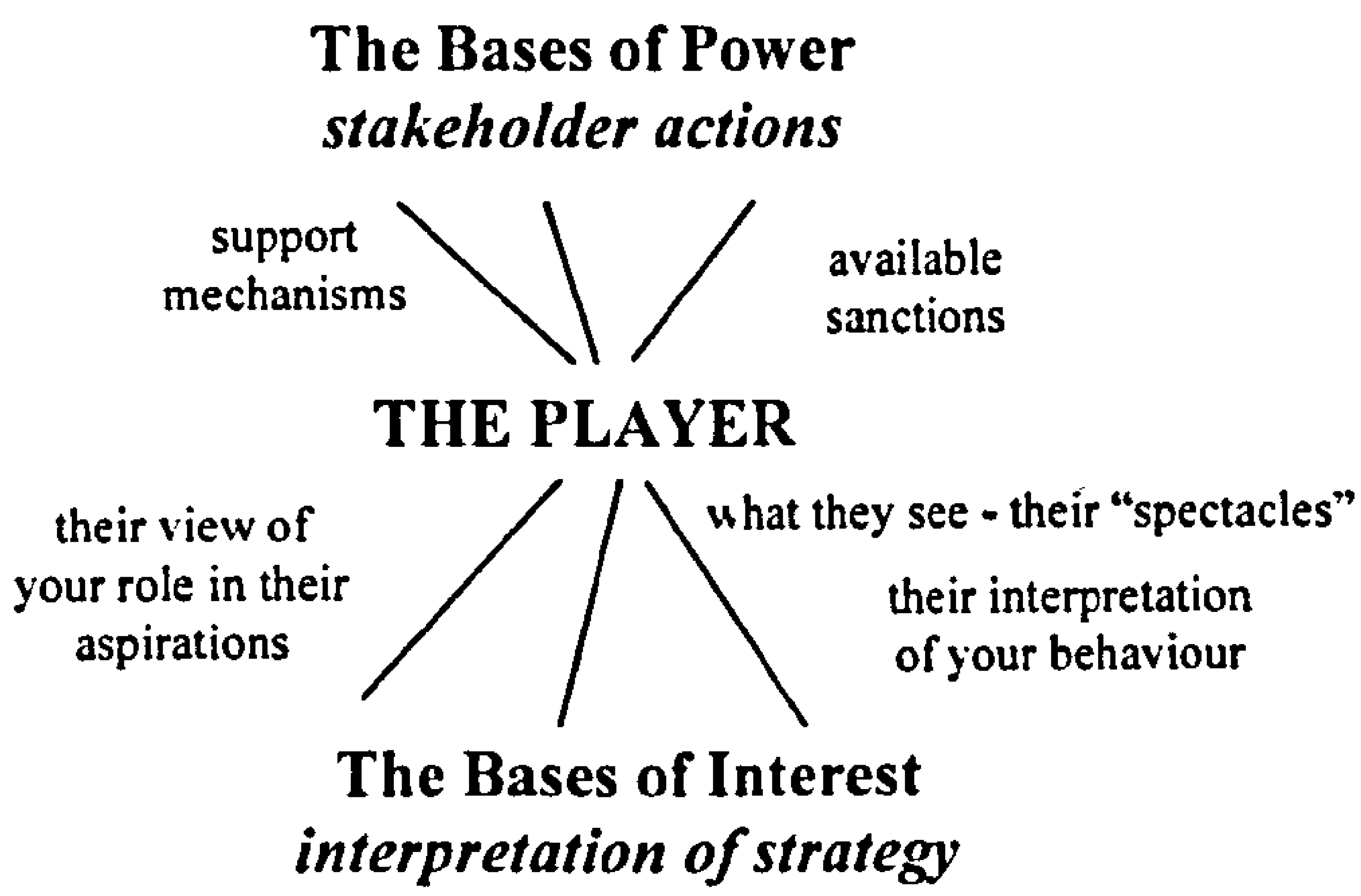


Fig 7.2 - Stakeholder Analysis - 'Star Diagram'

The Star Diagram is a tool to think systemically about the relationships between a selected stakeholder and the organization. Managers are encouraged to dwell on the identity and actions of the stakeholder as it pertains to the particular strategy or action being considered. Eden and Ackermann use the star diagram to emphasis interrelationships, but the process appears to be stepwise:

Managers explore the "Bases of Interest." How will this stakeholder learn about the organizations strategies and actions (monitors) and why would they be interested?

1. What are the stakeholders perception of this organization's role in their business?
2. How will this stakeholder interpret the strategy or action?
3. If they are supportive, what are they supportive of and what can this stakeholder be persuaded to do and how?
4. If they are not supportive, what do they not support and what are the sanctions available that this stakeholder may choose to utilize?
5. What can be done to mitigate the effect of those sanctions?

In following the rationale of the stakeholder exploration in the star diagram, it would seem that an additional set of "points" in the star could be the exploration of the complexity of a stakeholder's response to a strategy or issue. A stakeholder might support or oppose different parts of the strategy or issue and it would be helpful if these facets are identified and then extrapolated from in terms of possible support and sanctions. Bryson accomplishes this through delineating various interests stakeholders have in an organization and evaluating how they perceive the organization's performance in terms of that interest.

After each identified stakeholder is examined individually, the combination of monitors and sanctions generated from an individual stakeholder analysis should be explored in their aggregate to assess if there are possible stakeholder associations or coalitions that might be productive or threatening.

ACTOR INFLUENCE NETWORK MAPS

Eden and Ackermann identify a category of stakeholders who do not necessarily have power in and of themselves, but do indeed wield power due to their ability influence others. Indeed, these stakeholders may act as "hubs" of influence who can critically affect the interpretation of other stakeholders. Therefore, it is important to explore stakeholder relations for these networks of influence. Examples of these type stakeholders are so manifold that there are common language terms such as information broker, middle man, and intermediary to identify these stakeholders' roles. Eden and Ackermann identify two different relationships that should be identified. The first are the formal relationships such as contractual or mandated that must be followed and are easily understood. Informal relationships are more difficult to define and are more dependent upon particular issues or strategies, based upon mutual aspirations, perspectives and relationships. While this type of analysis could come out of the star diagram, Eden and Ackermann state that this procedure "gives probably the best indication of the potential for coalitions and collaborative and the frequency and likelihood through which they might come about."

STAKEHOLDER MANAGEMENT

The stakeholder management module is identified as part of the macro process illustrated in figure 2.5 from Eden and Ackermann's book. However, it is clear from their writing that this process actually exists both within the micro process and the macro process as sort of transitional object between the development of strategy; the decision to proceed with a selected strategy or action from a portfolio of possibilities; and the actual implementation of the strategy. Eden and Ackermann significantly add to the literature in this area as they redefine the concept of stakeholder relations to include stakeholder management. Nutt and Backoff also focus in this field through their analysis to identify combinations of stakeholders and resources that could be taken advantage of or must be acknowledged in order to move a strategic plan forward. Eden and Ackermann advocate a much more pro-active process that encourages managers to work with or indeed manipulate stakeholder relations toward a more supportive context in terms of a particular strategy or plan. In effect, they are maintaining that the key to success is to comprehend that organizations understand that it is most important to attend to what stakeholders perceive the strategy or action is than what the organization itself thinks it is. This fits with the argument for the importance of process discussed as the foundation of strategic planning and action for Eden and Ackermann at the beginning of this chapter. They illustrate this by using the Power/Interest grid (figure 7.1) to explore actions that will enhance the potential for successful implementation of an action or strategy by moving actors into or out of the "players" quadrant by managing the perceptions targeted stakeholders will hold regarding the strategy, action or the organization. This might be done through direct action or communication (or the lack of), influence networks, and the formulation of coalitions or collaboratives that influence reaction and therefore, support or opposition.

STAKEHOLDER ROLE THINKS

The fourth process utilized by Eden and Ackermann is to explore possible stakeholder reactions to a proposed action or strategy by engaging in a process that encourages evaluations from the stakeholder's perspective. This process allows a "test run" of the issue to better understand what may really occur when the strategy is introduced into the "macro" process of organizational activity. This process is based on the game theoretical approach developed by Peter Bennet and used regularly by many private and governmental organizations. The process encourages managers to react to proposed strategies or actions. Eden and Ackermann believe that this process is extremely important to the success of strategic planning as it helps to ensure strategies and actions are well founded upon realistic perceptions of the environment and potential stakeholder reactions. This is accomplished by having them take on a particular stakeholder role based partially upon the information evolved from the star diagrams and from any other information available about the stakeholder. In some cases, actual stakeholders are invited in to participate. The scenario is run and critiqued until an acceptable result that is also realistic is agreed upon. This process may result in small adjustments to the strategy or action, or perhaps, even to the complete re-thinking of the proposal all together.

CONCLUSION

To sum up, within their processes, Eden and Ackermann hold that satisfying stakeholder expectations is a function of both defining and managing those expectations in a manner that serves the goals of the organization. Organizations need to comprehend the critical functions of management as the principal conduit of information both to and from the organization and recognize the inherent power this gives managers. That managers have a different perspective and interest for the organization and its owners that must be accounted for. This perspective is possibly longer term than the stockholders' perspective, but is not necessarily long term. That strategic planning process must be grounded in what is realizable and practicable, in terms of how stakeholder response shapes activities toward the goals and objectives of the organization. And finally that organizational learning is accomplished by integrating strategic planning into the macro phase of the operations of the organization.

CHAPTER 7

ACTION RESEARCH

METHODOLOGY

Introduction

This chapter identifies and discusses the research method utilized in the analysis in terms of context and content of the Texas Education Agency and the School District cases. Research should not only be comprehensible, but also must be approached and implemented in a manner that ensures it is both a valid and reliable contribution to the field. To that end, and to the extent that it is possible, the research should be presented as a concise, theoretical formulation founded on data that is free of biases and prejudices.

The hypothesis for this research is that the problem, issue or opportunity defines the organization necessary to deal with it. And that the universe of potential solutions to a problem, issue or opportunity will be constrained by both the problem and the organization comprised to address it. Therefore, potentials for success are predetermined by the organization assembled to address it. This process is multi-variate and dynamic, rather than circular. I have developed a stakeholder approach designed to probe the composition and boundaries of an organization, based upon the problem, issue or opportunity and tested by the solution.

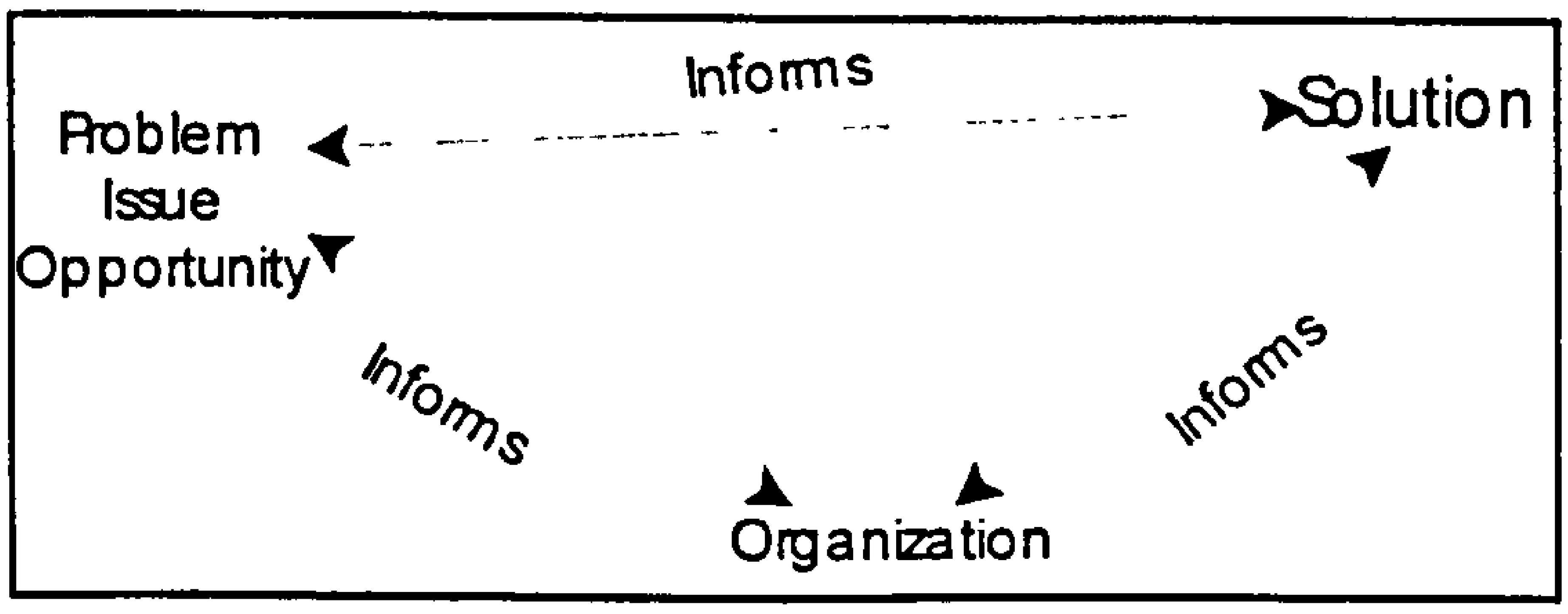


Figure 7.1 Organization Matrix

This thesis is the combination of two analytical processes. The first analysis deals with the development of an organizational (substantive) theory and stakeholder processes that support the hypothesis using both an action and deductive research method. This chapter addresses the methodology employed in this first task.

The second set of analysis deals with a comparative examination of the new stakeholder process against three other stakeholder approaches as they are applied to a case. The efficacy of my stakeholder approach is informed by the extrapolated change in the results which therefore gives support to my hypothesis. The details of this approach are the makeup of the Evaluation of Methods Section of the thesis, with the research methodology discussed in chapter eleven.

Methodology

The development of the hypothesis and processes were the result of a series of two consultant relationships beginning in 1993 and 1996 where an action research approach was applied to help me understand what I was doing, what were the results and why.

Background for Action Research

I had been interested in various formal and informal stakeholder processes since the early 1980's while working as a political campaign consultant. I employed them to identify political constituencies and potential donors for candidates and their campaign staff. Once these stakeholders were identified, we either brain-stormed positions for the candidate or "role played" the stakeholders' behaviour during mock debates. This work was not research oriented however as these processes were applied without consideration of their rationale. At the same time, working with the approaches gave me a deep familiarity with the group dynamics involved with these processes that helped form my later thinking.

It was not until 1990-1991 that I began to explore potentials of stakeholder approaches regarding potentials for organizational composition and change. Over the succeeding seven years, I developed and refined a set of stakeholder processes, attempted to understand their theoretical underpinnings and then applied that learning to succeeding processes.

During this period, I was involved in three strategic planning efforts that were particularly formative to my thinking. The first was work with an association of public teaching hospitals which was the first occasion a full version of the stakeholder influence mapping technique was used which then resulted in the transformation of an organization (as discussed in chapter 3).

Second was my encounter with the Texas Education Agency, where we developed a statewide strategic plan to answer the needs of students with disabilities. I was able to apply the stakeholder process to the formation of the organization that was comprised to address the issue. This experience helped me understand how the processes enhanced stakeholder ownership, understanding and support of proposed solutions and therefore increase potentials for a successful outcome.

Finally, there has been my experience of resistance to the adaption of stakeholder approaches in the day to day process and planning of organizations. This is particularly exemplified by an experience I have had recently with a school district regarding the implementation and execution of a strategic plan. While the superintendent and staff were willing to participate in the process and did benefit from the process, it is also clear that they were only willing to go through the process because I was insistent about it. This forced me to ponder why such a successful process in my experience was not readily embraced or carried on by the organizations I worked with. It was then upon reflection of these three experiences that I found that the process was well accepted by organizations in their formative stages. It was also successful with existing organizations that had experienced a confounding realization regarding their goals and respective capacity. I was then able to contemplate the existing underlying organizational assumptions operating that made it difficult to employ the process with selected organizations.

Action Research Methodology

My work with these two groups had two separate tracks. The first was to help them as best I could to develop strategic approaches and plans to address poorly understood issues, problems and opportunities. At the same time I informed them that I was using the occasions to study group and organizational processes. I was clear however that the client's need would be the determinant of any process I used with them. However, all the groups knew through discussions before they hired me that one of the processes that I believed would help them was the utilization of stakeholder analysis and stakeholder influence mapping techniques.

My overall approach to the research aspect of these experiences was to first explicitly understand what the group was about and then if appropriate, to promote my processes. I did this by first interviewing the prospective client and then submitting a written agenda and proposal identifying the processes to be used and why. Second, was to employ the technique and then converse with the group regarding their perspectives of the experience and record it in personal notes as well as feedback to the group regarding their output from the processes, where they were in terms of their progress and how that related to what was next. I would then reflect on what had been learned by trying to eliminate or account for outcome results that seemed to emanate from bias. prejudice, stereotyping or other situation specific developments.

Finally, I would rethink my model in terms of what had been learned and adapt or re-engineer and then employ it again when another, similar opportunity arose in order to observe what had changed.

This approach was very much of a discovery process as I had first developed a strategic planning tool that seemed to enhance dramatically the ability for a group to work successfully together toward and therefore increase potentials for a solution. A solution related to a problem, issue or opportunity which might require the transformation of the organization. However, it was only after much reflection and experimentation that I was able to comprehend the embedded theory supporting the technique. For example, my initial thinking regarding the teaching hospital case (the first case I will present) was entirely about how group dynamics, ownership of the solution and potentials for success were enhanced by the technique. It was not until I had employed the technique several times and began to realize the organizational transformational potentials of the process that I began to ponder those aspects.

Therefore my research process steps were:

6. Develop, re-engineer or refine the problem definition stakeholder analysis and influence mapping techniques.

7. Explicitly discuss my facilitation approach and research interests with the client before entering into an agreement.

8. Employ my processes with the organization, endeavouring to maintain a clear and reproducible process and approach that was based on previous thinking and work. But at the same time deferring absolutely to the needs of the organization. When there was a difference, to record and reflect on what impacts this variation had.

9. Assay the group's interpretation of what had happened and what they thought the effects would be by querying the group at large regarding the process and discussing meeting developments with the sponsor(s).

10. Track the process through to fruition to attempt to understand long term effects.

11. Record and reflect on the experiences through personal notes and discussions with other interested parties.

12. Based on experience and learning, alter the model and try it again.

METHOD AS IT RELATES TO THEORY

However, the development of or substantiation of theory requires a parallel effort that develops in tandem with action research. Figure 3.1 illustrates this relationship as I have applied it in my research on these two cases. In effect, the theory path operates largely as an abstraction of the action research method that is designed to both substantiate the method and evaluate it. However, the critical action points for the method tend to centre around employing the process, while the major activity on the theory path lies in the evaluation and reflection areas. The important points in figure 3.1 for the researcher interested in theory are the junctures where action method informs theory and when theory informs method. A brief discussion of each of those junctures is helpful to ensure that the researcher is able to successfully employ the process.

Introduce Theory

The introduction of theory as an integral component of the method to the organization and the group ensures that the process being examined is well understood by both the researcher and the people being observed. From the researcher's perspective, this requires that the method is well explained and logical as possible and that the method presented makes sense in terms of the theory it is espoused to be supported from. From the perspective of the organization and group, a better understanding of what it is they are getting involved with and what should be expected will allow them to focus on the content and not worry so much about the process. This will have two important benefits for the researcher. First is the knowledge that there is a greater possibility that what is actually being examined is the theory as another set of critical

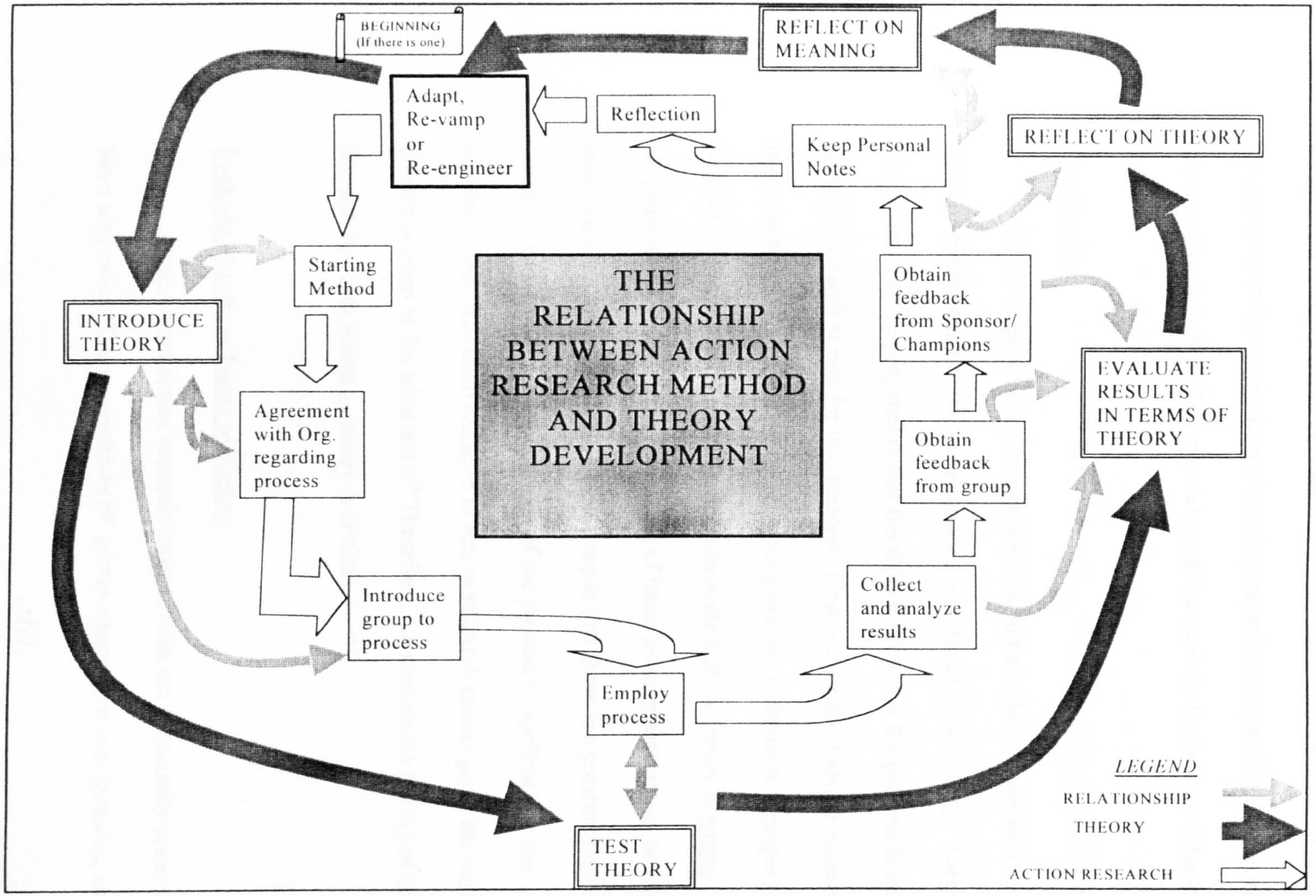

BEGINNING
(If there is one)
REFLECT ON MEANING
Adapt, Re-vamp or Re-engineer
Reflection
Keep Personal Notes
REFLECT ON THEORY
Starting Method
INTRODUCE THEORY
THE RELATIONSHIP BETWEEN ACTION RESEARCH METHOD AND THEORY DEVELOPMENT
Obtain feedback from Sponsor/ Champions
EVALUATE RESULTS IN TERMS OF THEORY
Agreement with Org. regarding process
Obtain feedback from group
Introduce group to process
Collect and analyze results
Employ process
TEST THEORY
LEGEND
RELATIONSHIP
THEORY
ACTION RESEARCH

Figure 3.1

thinkers have heard the description. Second is that to the extent it is possible for the group to intellectually contribute to the validity of the result by both knowing and attending to the process and supporting theory, that further assurance has been added to the research. This should ensure that a valid result was observed in terms of what was intended. From the perspective of my process, this activity is of critical importance as it is often the case that the group must first embark on a learning experience regarding the theory of the organization in order to better understand the need for the process (chapter nine and ten).

Test Theory

Every employment of the process should also be considered a test of the theory in order to further explore the full potentials and rigour of the theory. Therefore, the researcher must be prepared to test the theory whenever the process is used. To not do so puts the research at risk for two reasons. First is the risk of losing valuable data regarding the boundaries of application and elasticity that are endemic to a properly defined theory. Second is to continually examine the potentials that the theory is wrong. Whether the error is fundamental, requires the rethinking of basic assumptions or can be explained by some other variable in the outcome, I would argue that there is a greater chance that these will be found by either multiple applications of the process or applications that vary one or more variables. An individual engaged in action research cannot go to the client and say: "it always worked in the laboratory." Therefore, the continuous testing of action research through its relationship to theory is critical.

Evaluate Results in Terms of Theory

A successful action research process does not necessarily mean that the theory has been supported. The perspectives of group, champions and sponsors, especially if they are somewhat informed about the theory will certainly be important. Evaluation opportunities with these participants should be taken advantage of to assess information regarding success or failures in the process, method and theory (process is used here to encompass other variables that affect the outcome other than the method). It is important that the researcher understand. However, it is the responsibility of the researcher to desegregate the information received in terms of method and theory.

Reflection On Theory

The research should explicitly reflect about the method's effect on theory in terms what was understood and discovered during this exercise of the method. It is certainly possible that the reflection on the method and the process can happen at the same time and be intertwined in the writing and notes, but an effort should be made to deliberate on the theory in terms of the method observed.

Reflect On Meaning

To reflect on meaning means to also contemplate the other dimensions within the environment of the process. Namely to continue to strive to identify the "fit" of the theory in the larger scope of things as they appear. In other words, the theory must work in terms of method application, but it also should fit into the larger cognitive whole. This is not an argument for a sort of unified theory. Rather is an admonition that the researcher must also try to understand the fit of theory within the larger scope of affairs. There is a common saying: "theoretically, hummingbirds (or bees) cannot fly." This is an example of a contradiction that would be refuted by a reflection exercise.

Adapt, Revamp or Re-engineer

At this point, theory and method should to the extent possible for the researcher, be very much the same as this is the opportunity to merge them by making sense of both. Changes to method should be throughly explored in terms of why the theory would support the change and/or what change in theory has been made by the change in method.

Method Continued...

The outcomes for this type research approach are not only a well developed process or tool, but a good understanding of why the process works and what the implications are for understanding how/why organizations do or do not work. It is this process of
action->discovery->reflection->understanding->theory->testing with the required iterations that demonstrated related, incremental advances that eventually lead to a more robust understanding of organizationally grounded, emergent theory.

There are however, shortcomings to the action research approach that the researcher must account for. First are the tremendous numbers of somewhat isolate variables due to utilizing different groups, problems and conditions to reliably understand the relationships between cause and effect. Simply put, how can we be sure what we intended to test actually resulted in what was observed? The answer to this is twofold. First is to acknowledge and question the result in these terms: could some other variable or combination thereof have contributed the same result? I have attempted to mitigate this by being very careful regarding the setup and instructions I have given groups regarding the problem identification, stakeholder analysis and influence mapping phases of the process. In this manner, I have attempted to limit the number of variables involved in each phase so I would have a better chance of detecting what statisticians might call co-linearity. Second, I questioned participants, champions and sponsors regarding their interpretation of what had happened, whether it was helpful or not and why they thought so. One additional technique that might have been employed would have been to use pre and post test questionnaires as they could have helped establish presumptions, attitudes, knowledge, commitment and identity prior to the meeting and the resulting change due to the meeting and the technique utilized. I do not believe the executive nature and circumstances of the particular groups I worked with would have allowed for such a formal survey. There are two reasons supporting this observation. First is the problem dynamic of members' openness with the group. It is only by producing a secure setting and using processes that encourage openness that many of these people feel "safe" enough to take risks in sharing their beliefs. Many of the conversations regarding positions and options could possibly be very damaging to the individual members and their organizations if they were made public outside the context of the meeting. A questionnaire would be considered just such a vehicle to release this type information whether it was designed to do so or not and it would have reduced the potential for members sharing their beliefs and discussing options. Second is the issue of formal introduction of a group such as this into the required procedures regarding human testing at the University of Minnesota. A human subjects study requires not only a very detailed procedure regarding notification and training of subjects and their approval, but documentation of the process itself. This is a tedious (for the subjects) procedure that is intended to guarantee that illegitimate research is not conducted and that research subjects are not harmed. Introduction of such a recording process with these type groups would surely destroy the safe environment. Regardless of the attempts I employed to mitigate this problem, this research is certainly still at risk from this effect.

A second shortcoming is the inability to replicate the experiment under identical conditions to test alternative techniques and determine reproducibility. I think this shortcoming does limit the type of questions this type of research method should be employed to address to areas of emergent theory and dynamic situations that require real life experiences. However, my research meets both these requirements. In addition, while I am only using three cases to illustrate the research, I did employ the processes with many other groups along the way. Indeed, this is the only answer to the question of reproducibility, weak as it is. I selected the three interventions for this thesis as they were cases where my approaches in terms of setting up the groups, presenting the processes, engaging the group were all essentially the same. Other cases had other variables involved that made them less comparable, yet tended to yield similar results. However, I do not include them as substantiation this research.

There are alternative research approaches to the development of my technique. Perhaps the most common approach in the United States would be to develop the process in a laboratory setting. I could have employed this as I have access to university students and was Associate Director of a Group Decision Support Laboratory at the University of Minnesota. I could have employed students to role play processes, using scenarios with small changes and measured the result through observations and questionnaires. Indeed, at least two successful doctoral thesis were produced in this manner during my tenure. A second research approach would have been to attempt to develop the approach solely based upon the experiences of what others had observed and to extrapolate what effect my approach would have in those circumstances. This second approach also is well founded in the United States as it allows for advances through synthesis and incremental experimentation on already developed research.

These approaches would have yielded the suspect results for two major reasons and therefore were discarded. The most important difference is the inability of the theoretical or lab approach to account for the very real and intense dynamics of real life. Most of my critical learning took place from situations where the actors were intensively dealing with group and organizational issues of real consequence and those events were further focussed by immense knowledge brought to bear by vitally interested parties. It is highly doubtful that any such dynamic could be reproduced in a lab with students as these issues are much too complex and require deep knowledge about the problem, issue or opportunity being addressed and the relationships of the various stakeholders involved. Indeed, I would suggest that the laboratory experiments themselves would lead to a very different and suspect result. Even though the lab or theoretical processes would allow for easy measurement and rigorous observation, the inability to reproduce the depth of knowledge and commitment in the subjects would lead inevitably to a biassed result.

Second is the inability to employ constructed, situational events to delve into fundamental assumptions about an organization. For example, the major learning I obtained from the third case in this research was that I had developed a powerful tool that was not being naturally assimilated by the organizations. In other words, they were persuaded by the process and acted on its direction, but did not adopt it as a regular part of their thinking. No lab or theoretical setup would have revealed this to me as this was the result of long term observation of how the organizations proceed on after my intervention.

Therefore, an action research format is the only methodology that would produce the learning that has led to my findings.

Eden and Huxham (1996) have developed a set of fifteen characteristics of action research which I have used to organize the above presentation. While there are many authors in this area, Reason (1988), Whyte (1991) Straus and Corbin (1990), this is possibly the best compilation to date of the requirements for good action research and therefore, good science. I present it as a sort of checklist with a short discussion of this work's applicability to each point.

1. Action research demands an integral involvement by the researcher in an intent to change the organization. This intent may not succeed - no change may take place as a result of the intervention - and the change may not be as intended.

- I was intimately involved in all cases, either as a facilitator or a researcher.

2. Action research must have some implications beyond those required for action or generation of knowledge in the domain of the project. It must be possible to envisage talking about the theories developed in relation to other situations. Thus it must be clear that the results could inform other contexts, at least in the sense of suggesting areas for consideration.

- If the approach withstands further testing and critique, it could well call for the reconsideration of the initial approach to both the design and management of organizations, whether public, nonprofit or private.
- The intent of this research is to eventually generate grounded theory based on cumulative learning experiences using an action research approach. At this time, the research is not well enough developed or explored to claim the development of a full, grounded theory. Rather the research is to the point where the claim for substantive theory has been developed.

3. As well as being usable in everyday life, action research demands valuing theory, with theory elaboration and development as an explicit concern of the research process.

- This research began only after years of utilizing stakeholder processes by the author. The intent of the research was to build a better understanding of organizational processes in order to develop tools and techniques that are useful to the organization, not so complex as to require external support and generally make "sense" to the users.

4. If the generality drawn out of the action research is to be expressed through the design of tools, techniques, models and method then this alone, is not enough. The basis for their design must be explicit and shown to be related to the theories which inform the design and which, in turn, are supported or developed through action research.

- Stakeholder analysis and stakeholder influence mapping directly contribute to the definition of an organization, based upon the iterative definition of the problem, issue or opportunity.

5. Action research will be concerned with a system of emergent theory, in which the theory develops from a synthesis of that which emerges from the data and that which emerges from the use in practice of the body of theory which informed the intervention and research intent.

- This statement embodies the method utilized in this research.

6. Theory building, as a result of action research, will be incremental, moving through a cycle of developing theory to action to reflection to developing theory, from the particular to the general in small steps.

- I would suggest that the cycle actually begins with the action of observation, whether explicitly or implicitly. The tools and techniques developed during this research where initially based upon years of experience working with organizations and utilizing other stakeholder approaches and observing the result, which would be an implicit observation. The course of the research discussed herein was an explicit, organized observation that led to reflection to theory development to action to observation... It is a human condition to react to stimuli. Research is the process whereby we learn from the reactions, based upon stimuli.

7. What is important for action research is not a (false) dichotomy between prescription and description, but recognition that description will be prescription, even if implicitly so. Thus presenters of action research should be clear about what they expect the consumer to take from it and present it with a form and style appropriate to this aim.

- The development of the organizational theory matrix with the stakeholder analysis and stakeholder influence mapping techniques (or tools) are the intended results of this research. The important theory development of this work is the implications that must be considered when researchers, strategic planners and managers consider their next steps from the position that the organization should be grounded in the problem, issue or opportunity being considered.

8. For high quality action research a high degree of systematic method and orderliness is required in reflection about and holding on to, the research data and the emergent theoretical outcomes of each episode or cycle of involvement in the organization.

- All of the stakeholder lists, influence maps and notes from each experience were collected. However, these were often cumulative results of the experience. In addition, there are written proposals, meeting agendas and notes from conversations with the sponsors and champions. It would have been helpful however, to have developed a more systematic approach from the beginning. During the final case, a systematic method was utilized where a notebook of all information pertinent to the case has been collected. In addition, a questionnaire was filled out for each meeting by the researchers (appendix B).

9. For action research, the processes of exploration of the data - rather than collection of the data - in the detecting of emergent theories and development of existing theories must either be replicable or at least capable of being explained to others.

- Questions of replication are directly addressed in the text above.

10. The full process of action research involves a series of interconnected cycles, where writing about research outcomes at the latter stages of an action research project is an important aspect of theory exploration and development, combining the processes of explication pre-understanding and methodical reflection to explore and develop theory formally.

- Questions of connectedness are directly addressed in the text above.

11. Adhering to characteristics 1 to 10 is necessary but not sufficient condition for the validity of action research.

12. It is difficult to justify the use of action research when the same aims can be satisfied using approaches (such as controlled experimentation or surveys) that can demonstrate the link between data and outcomes more transparently. Thus in action research, the reflection and data collection process - and hence the emergent theories - are most valuably focussed on the aspect that cannot be captured by other approaches.

- Questions of other research approaches are addressed in the text above.

13. In action research, the opportunities for triangulation that do not offer themselves with other methods should be exploited fully and reported. They should be used as a dialectical device which powerfully facilitates the incremental development of theory.

- This research used three different approaches to the development of the theory: action research, deductive and critical incidents.

14. The history and context for the intervention must be taken as critical to the interpretation of the likely range of validity and applicability of the results of action research.

- History and context are a part of the discussion of each case used herein. The questions generated by the substantive theory have wide reaching consequences to most existing and all developing or yet to be developed organizations. In addition, the substantive theory also raises questions regarding the approach by management to any problem, issue or opportunity considered. While some organizations or problems, issues or opportunities are so simple as to not require this consideration, certainly any complex situation requires it.

15. Action research requires that the theory development which is of general value is disseminated in such a way as to be of interest to an audience wider than those integrally involved with the action and/or with the research.

- Hopefully, the cases included here are ones that most researchers, facilitators or managers would find easy to relate to. None of these cases are so qualified as to exclude general observations.

Conclusion

This chapter is designed to outline and discuss the research methodology employed to examine the starting stakeholder brainstorming and influence mapping approach as they were applied to the Texas Education Agency and the School District cases in chapter eight. The intent was to establish a procedure that would ensure the client received what was needed and that a reliable method of data collection was employed so that the resulting analysis and emergent knowledge is grounded in the data. The action research method was employed as it was best suited for both the conditions of the case and the type of observations needed. Namely to observe the behaviour and reactions of organization members who are highly committed to solving the problems posed as they will be directly affected by any success of failure.

CHAPTER 8 (A & b)

RESEARCH:

TEXAS EDUCATION AGENCY

AND SCHOOL DISTRICT CASES

Introduction

This chapter has two parts. The first is the chronicling of the Texas Education Agency experience (8A) and second is the School District experience (8B). Each case involved the further exploration of the efficacy of the stakeholder approaches and also began to reveal the emergent theory embedded in the approach. From these experiences, I began to contemplate why the current conception of an organization prevails at this time (organization-> problem, issue or opportunity-> solution). Namely the presumption that an organization exists and therefore should be used to discover problems, issues or opportunities and then produce a solution.

The Texas Education Agency Case (8A)

I was asked to help the Texas Education Agency develop a strategic plan that would both meet federal education requirements and enhance access and opportunities for students with disabilities in the Texas school system. Texas had long resisted directives by the federal government in this area as there is a tradition in the state to resist outside directives. A common statement is "if it didn't come from here, we don't want it." However, the federal government allocates hundreds of millions of dollars to the states for education.

Relations between the "feds" and Texas had progressed to the point where funding was going to be withheld if the state did not amend its ways. Therefore, the Texas Legislature passed several laws regarding access and treatment in schools for students with disabilities. But in the Texas tradition, school districts ignored the dictates as these decisions were not locally based (they "didn't come for here"). This is despite the fact that those districts were the "creatures of the state" in that their creation, funding authority and administration are all delegated functions from the state government. Therefore the problem facing the state and therefore, this organization, was how to persuade the local school districts to change their behaviour or risk the loss of federal education funding.

With this case, I again followed a two-step process where the original group first developed a proposed stakeholder list which led to invitations to the first meeting. Second was a full stakeholder exercise with the newly formed group to ensure the proper organization had been formed in terms of addressing the identified problem. This time however, the process was deliberately aimed at developing an organizational constituency that would enhance the potentials for success.

The first meeting was with five group members who individually brain stormed a list of potential organization members. These lists were then combined and members of the group which where then clustered to identify influence groups and relations. A stakeholder influence map was then produced with circles of influence ascribed, which allowed us to decide which stakeholders to invite into the organization as internal stakeholders. It also gave direction for communication requirements to external stakeholders.

At the second meeting (which was really the first for the new organization), the group of eighteen went through a similar stakeholder identification and stakeholder influence mapping process to explore and validate the assumptions made in the first meeting. There was little overall change from the map developed at the first meeting, with the one significant exception. It was discovered that a critical stakeholder group had been forgotten. That group was the families of children with disabilities who in fact are the real advocates for this issue, both within the school districts and the legislature. What had happened was that the providers and professional advocates, who were clearly the most visible and connected stakeholders around the issue and were obviously needed in order to obtain agreed upon, local support of any plan had totally eclipsed the parent's group. Yet, the parent's group were the fundamental source of their power in terms of stakeholder selection. That fundamental source comprised thousands of parents of students with disabilities in the state. For example, within the school district encompassing the Dallas, Fort Worth area alone, there were more than 22,000 students diagnosed as having some type of disability. What was clear from the discussions was that the parents group was commonly considered a "client" or "patient" to most of the group members, for which these people acted professionally on the behalf of. The stakeholder influence map identified this critical group as one of the foundations that most of the other stakeholders linked to. This stakeholder group was then recruited and comprised 10% of the membership of this newly created organization which was called the CSPD Leadership Council (Comprehensive System of Personal Development). This group met four separate times for a total of nine days to develop a strategic plan utilizing the SODA (Strategic Options Discussion and Analysis) process (Eden, 1989). SODA is a strategic planning approach that allows a group to derive actions and strategies based upon an organized view of the world that is both rationally based and relates those efforts to a goal system. In essence, the system requires the group to make "sense" of their world by discovering and defining the relationships between goals, strategies, actions and statements of condition.

During the final writeup of the plan, the current governor of Texas was defeated by the son of former United States President George Bush. One of the election platforms he had run on was the dismemberment of the Texas Education Agency, which he immediately began to do after taking office in 1995. His rationale was the all too familiar one regarding decisions which were not locally based (they didn't come for here). At the same time, the United States Congress changed from a Democrat to a Republican majority and the power of the United States Department of Education to enforce penalties upon states for a noncompliance was dramatically reduced. This further reduced pressures for the state to act. About 70% of the staff were laid off or sought jobs elsewhere and it seemed a foregone conclusion that this effort was doomed also. The organization had been well aware that this development was possible, but could envision no manner that they could affect the race for governor. Despite the voting potential of thousands of parents, students with disabilities only comprised 3% of the student population. This translates to an even smaller percentage of actual pool of voting adults. Also, the major issues in the public eye during the Texas race for governor did not include this one.

What then happened could be classed as both fortuitous circumstance and/or the intended result of the stakeholder influence mapping process as the major development of the change in state governors was beyond the scope of this organization to affect. The parent's organizations had been so convinced and behind the process (once they were invited in) that they would not let the process die and the strategic planning document was published in December of 1996. I had been in contact the former Director of the project who had moved on in 1995. She had told me before she left that the project was essentially dead as it so directly confronted the new governor's very public position. After the report was published, I again contacted her to find out how this had happened. She told me that despite all indicators to the contrary, the parents prevailed and the plan was instituted. It appears then that the stakeholder process, which revealed the lack of parent representation and subsequent recruitment turned out to be one of the critical factors in the success of this solution. It is clear that the parents would not have been recruited without the process as their inclusion at that level was clearly a surprise to most members. And it is clear that without the parent's advocacy, that the plan would have failed, no matter how well developed or written.

This experience demonstrated the efficacy of the stakeholder approach to the development of an organization that had increased ownership in the solution proposed. This directly increased potentials for a successful solution as the vital stakeholders were involved and supportive. In addition, the stakeholder influence mapping process had also developed the communication network that ensured that other stakeholders were apprized and as supportive as could be expected. Stakeholders who opposed the process and solutions were also examined and the solution was configured to mitigate their opposition yet keep a solution the organization could own and support.

At this point I was convinced by the successful results realized in cases such as the two above that stakeholder analysis and influence mapping were a critical component for any planning and management approach as they directly enhanced potentials for organizational success by ensuring critical stakeholders were involved, communications opportunities were in place to work with external stakeholders and the solution was one that took all this into account. The reasoning behind this result is that increased ownership of the problem and solution by organization members increases their attention to implementation and eventual success for the organization. In addition, adversarial stakeholders' positions were considered in a manner that increased the potentials for a solution that was perhaps less of a significant issue that would cause them to react.

I then began to advocate that all my clients apply these stakeholder processes as it so clearly contributed to their success. And I wanted to further examine and understand the organizational theory supporting this approach.

The School District Case

During the spring of 1996, John M. Bryson and I were asked to develop a structure for and facilitate the strategic planning process for a large school district. This district had just hired a new superintendent which both John and I had worked with before. In fact, John and I had an ongoing relationship with this superintendent that continued beyond our contracts with him and we both consider him a friend. This friendship however would not affect the superintendent's primary obligation to his job, but it does give both of us an opportunity to gain knowledge and insights we would not be privy to without the relationship.

The district had just finished the time encompassed by their previous planning effort and felt it was time to begin again. The superintendent during his hiring interview had stated that he wanted to take this district "to the next level" and this would require a large, inclusive effort that would involve all parties within the community.

Our proposal to the district contained stakeholder analysis and influence mapping as one of the first steps in the process. This was agreed on by all parties and we began the process with the district in the fall of 1996.

The overall process was designed to work with three groups. These were the general publics of the district, administration and staff. The three phases of the plan were: problem, issue and opportunity gathering; strategy development; and design for implementation of the strategies. Given the complexity and the size of this planning effort, it was decided that the stakeholder analysis and stakeholder influence mapping process would be undertaken by the administrative group.

The first major part of the process was the convening of a "community roundtable" discussion where important community members opinions were sought in order to help derive and define the problems, issues and opportunities the plan should contemplate. We employed a stakeholder brainstorming process with the superintendent and staff to develop the list of attendees. We used the "hopes and fears" exercise with this group to develop an understanding by all regarding the various perspectives and expectations by various public stakeholders on this process. This exercise asks each member to discuss their various hopes and fears for the process (problem and solution), (see Defining Problem, Issue or Opportunity section later in this chapter).

Once these and other problem, issue and opportunity gathering processes had taken place (such as focus groups and community surveys), I met with the administrative group to begin the stakeholder processes on a Friday afternoon. We quickly reviewed the materials already generated and then began brainstorming potential stakeholders. Once these had been grouped, we began to build the stakeholder influence map. I introduced two different aspects to this map that were different to the previous experiences discussed. The first was the evaluation of relative support by stakeholders for the organization and the second was delineation of stakeholders between administrative and production stakeholders (as I discuss below in the Defining the Organization section). Both of these techniques had been used with other organizations and had helped the members obtain a greater understanding of stakeholder dynamics and influence. They also incorporated lessons taken from the Nutt-Backoff, Bryson, Eden and Ackermann writings. While the group was willing to go along with the exercise, they were not engaged or excited by it. We were not able to finish the process as we ran out of time, but we did schedule another session. I had detected a reluctance from the superintendent regarding the process and I asked him and others "what was going on." They stated that it had been a long week and they were tired. I also recorded in my notes of the meeting that it appeared to be more than just being tired and that this group did not appear to understand the importance of the process. This was despite the fact that both John Bryson and I had stated on several occasions that this was one of the key processes to a successful outcome.

I produced an electronic version of the partially finished stakeholder influence map (below).

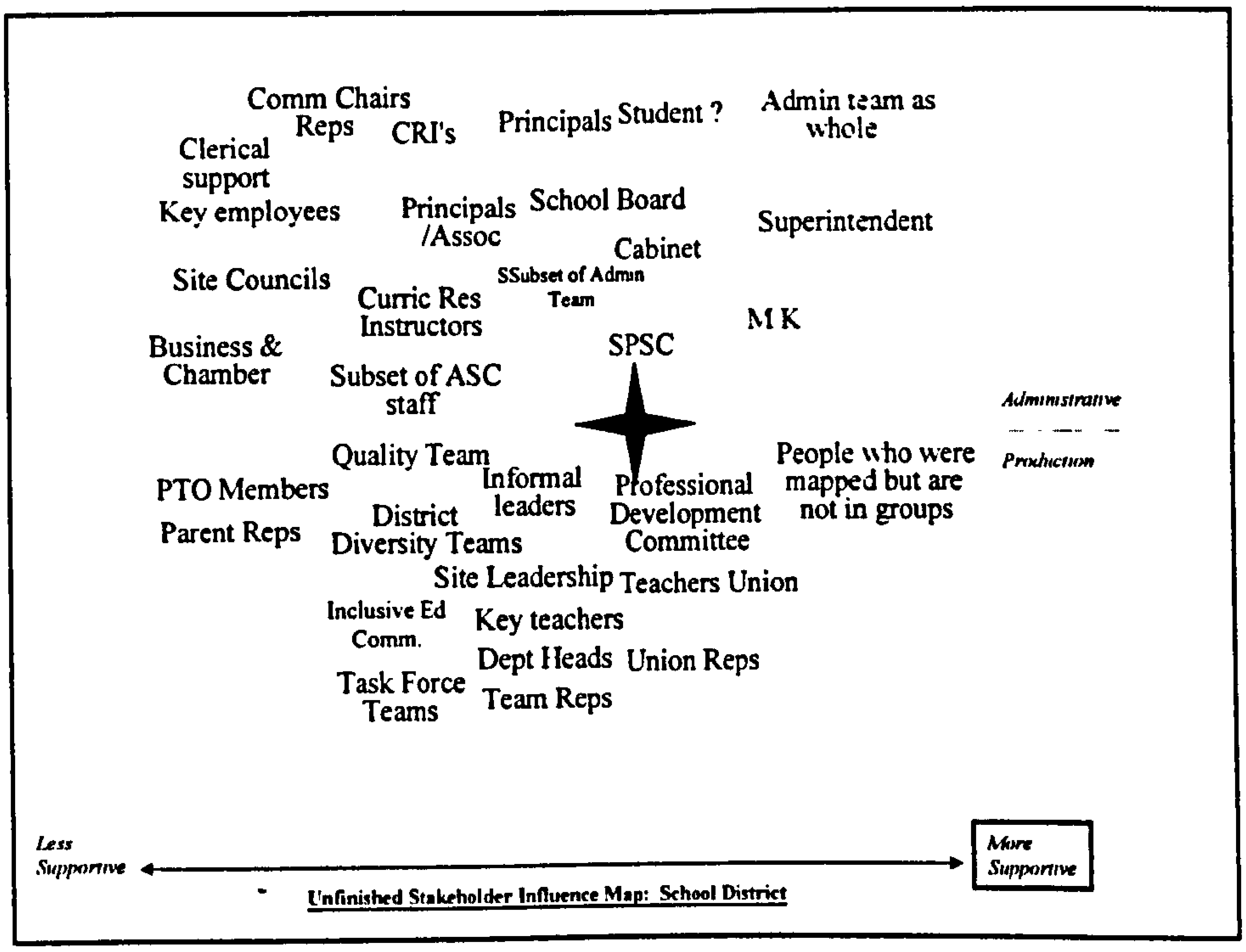


Figure 8.1

The problem, issue or opportunity is designated as the polar star symbol, with stakeholders arranged utilizing three relationships:

16. Importance to the problem, issue or opportunity indicated by relative proximity to the polar star, with greater distance indicating less relative importance.

17. Stakeholders are placed along the "X" axis in relation to their support of the problem, issue or opportunity, with less (or negative) supportive actors relatively placed on the left.

18. Stakeholders are placed above or below the "X" axis of the polar star in terms of the functions they serve. The classification is administrative above the axis and production below (see below under Inclusion of Management and Production Stakeholders)

Group members had not at this point included all the stakeholders or drawn in most of the relationships between these actors. While they also had not identified the internal stakeholders, it was clear to all that these stakeholders were placed around the polar star. They also had not arrived at a final decision regarding placement of the stakeholders. For example, the stakeholder labelled "SPSC" represents the Strategic Planning Steering Committee which is largely made up of teaching and support staff and represents constituents from the various school buildings in the district. It would be hard to define this group as administrative in that largely their occupations within the district are production.

When the time for the next session came around, it was cancelled due to other important business the group had to deal with. And as of May 22, 1997, this meeting has not taken place (with one small exception discussed below). I have spoken with the committee and superintendent on two occasions regarding this meeting and have received promises to complete the process, which I am sure will happen.

But this is not really the point in terms of learning from this research. The question this event brought to my mind was why did this group not want to finish this important analysis? Both Bryson's and my experience to date with other organizations was they benefited greatly from the process, but they really took it on out of respect for my expertise and role as planning consultant to them. In other words, this was part of the whole process they had engaged me to work through with them and that was their commitment. I want to be clear about this: every time I have used this process with a group, they have reported to me that it was both powerful and beneficial, which indicates to me that I am on the right track. I might also add that I have been criticized for other aspects of the processes, so this is not just a blanket endorsement that happens to include this process. Yet it is also my experience that these same groups do not understand and embrace the process before they go into it and have only done so as an act of faith.

While this was a development that had emerged out of several experiences, it was explicitly clear in this process. I decided that I would bring the question up in my next meeting with the Superintendent and his staff. Before doing so, I developed several options I would raise with them regarding this behaviour. I did not offer up the questions as a list. Rather, I asked them as a conversation regarding how the overall process was proceeding. I have included their answers after each question.

1. Q: Was this the right group to do this? I wanted to be sure that the reluctance was not due to such a basic error.

   A: Yes it was the right group. The Strategic Planning Steering Committee might have worked also, but their agenda was too full already.

2. Q: Was it a matter of timing? Where there are other matters that really had to be dealt with that were interfering with their attending to this process?

A: Yes, they were very busy and things had to be put off, but they were willing to finish the process.

3. Q: Was this reluctance indicative of other misgivings about the overall process? I wanted to make sure this was not masking some other problem.

A: No they felt the process was going well. There was some concern among some members over how big the process was and if everyone was going to come along, but they were willing to wait and see on this aspect.

4. Q: Had we not made it clear how important we felt this process was to the success of the overall plan? I wanted to make sure they understood what we were saying.

A: Yes they understood how important we felt this process was.

5. Did they understand what we were trying to do with this process?

A: They thought they did, but were not entirely sure as they had not been through the process before so did not know exactly what would come of it.

6. Q: Did they agree that they were reluctant to spend time on this process? I wanted to be sure I was reading their behaviour correctly. This question is also a provocative one in that it forces the respondent to either accept or refute a behaviour that might seem negative. It was designed to force a dialectical discussion to not only discover the grounds for their behaviour, but to work towards a solution.

A: This turned out to be the question that brought out what I consider to be their real reservations about the process. It was best stated by the Superintendent when he said: "Chuck, I really do not know how this is going to help us. We already know who is involved and all we have to do is get them to come along." Another staff member said: "We already know how to run the district." My interpretation of this statement was: "Why are you making us examine something we already know and do?"

The Superintendent's revelation shocked me, even though I had set out to get an answer. And I do not think I would have garnered such a truthful answer out of someone who had not worked with me for a long time and felt comfortable enough about the relationship to be honest. Even if that honesty might be hurtful as he was well aware of my interest in this area. It also speaks to the problem raised in the methodology chapter regarding the development of knowledge in a laboratory setting versus real life. I then tried to explain to the group how their conception of the organization as the school district with its many relationships to the community was not well understood by most of the people in this room, much less the larger group of internal stakeholders. That our interviews with various stakeholders had dramatically demonstrated this lack of knowledge. And finally that the stakeholder influence map was not being constructed to help them run the district on a day to day basis. Rather it was being built to help the organization understand who and what it is in terms of the strategic plan it was developing. That if they wanted to think of it as an offshoot of their management diagram, they should think of it as a transition tool to the changed district they were aspiring to. I later recorded this episode in my notes as it not only revealed to the group my thinking, but also may (most probably) have influenced their subsequent behaviour.

The group then wanted to have "another go" at the map right then and began to brainstorm about other stakeholders who were not on the map. The chief financial officer discovered that he had omitted his whole staff during the last round. Others volunteered that custodians and bus drivers were not on the map, even though their support is very important to the success of the plan. I was enthused about the response, but this meeting was not scheduled to have enough time to continue the process and I suggested we hold off until there was more time to do this properly.

Upon reflection of the meeting, it was clear to me that my questions had gotten to the basic reason for the problems I had observed regarding long term acceptance and inclusion of my processes. The answer was in the Superintendent's statement: "We already know who is involved and all we have to do is get them to come along." In other words, for the Superintendent and most of the people in that room, they had already defined the organization as the one that already existed before the planning process was established. Their assumption was that their manner of doing business was not really going to change. Rather, they all were just going to be doing some things differently, or perhaps doing other things all together! Yet a major part of the strategic vision they had developed for the district was about developing educational partnerships with students, parents, the private sector and government that could radically change the type of business they were in.

From my perspective, this duality in thinking could have two interpretations.

1. The organization does not understand that it is embarking on a process that will radically change the relationships between student, teacher, school and community. That this change will be instigated by the members of this planning process who persuade and educate the other stakeholders regarding this change. That these new relationships must be discovered and established before any change will be possible.
2. That the members of the group do not believe this process will result in any change for them. Therefore, why design such a stakeholder scenario? This could be for reasons of lack of faith in the process itself; lack of understanding of the ramifications of what they are contemplating; lack of attention to what is going on; or real knowledge that this will not affect their business.

This conundrum cannot be overstated. The planning process has invited in and involved members of all the major stakeholder groups and has promised them a role not only in the planning phase, but in the implementation and ongoing operations of the district. Therefore expectations have already been set that will directly impact the current operations and lives of almost everyone in the district. Even if they finally choose not in include these people, the political and financial ramifications will be of such scale that everyone will be affected.

However, John Bryson and I were very open regarding the inherent risks the district would be taking if they decided to open up the process. There was ample discussion about this with both the administrative groups, the Strategic Planning Steering Committee and the School Board. During meetings with the various groups, we often had engaging conversations where members would openly discuss why they wanted involvement by the various stakeholder groups. Therefore, I had to reject the two above interpretations as they were premised on either naivety or a level of cynicism that cannot be supported by the circumstances or the people involved.

To sum up, I had a straightforward process that was proven successful, yet groups had difficulty comprehending its value before it was administered. The question then before me was what assumptions do these people hold that makes it difficult for them to embrace a process that they find helpful after the fact? At this point it probably seems obvious that the problem is in the very definition of an organization as it is operationalized. In real terms, existing organizations seem to assume they are properly constituted for any problem, issue or opportunity they chose to undertake. Second, that members inherently understand the complex relationships held by others and that their assumptions are also the groups. That the relationship between problem, issue or opportunity, organization and solution would follow naturally. But this was not the case in my research as I had to follow a path that eliminated other possible reasons before suspecting a commonly held definition:

That:

1. Organizations exist as the transitory link between problems, issues or opportunities and their solution.
2. Organizations essentially exist as entities that both define the problem, issue or opportunity and then promote a solution.
3. This organizational process directly limits the universe of possible interpretations of problems, issues or opportunities and their solution.
4. In order to successfully obtain a solution, both the solution, problem and the organization must be defined in an dynamic manner.

Therefore:

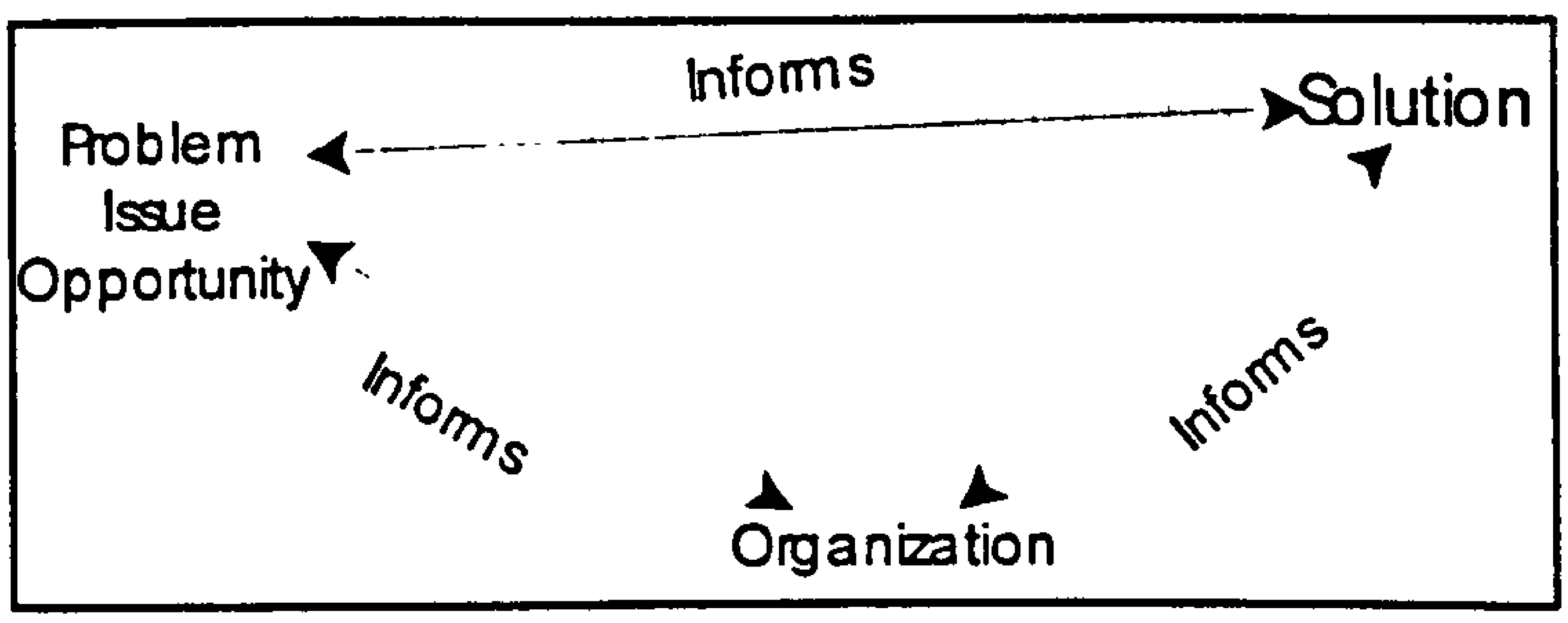


Figure 8.2 Organization Matrix

Therefore, I define an organization as a transitional object that first comprehends the problem, issue or opportunity facing the organization, which is bounded or constrained by the possible solutions. The organization then negotiates a set of agreed upon actions with stakeholders that leads to a successful, agreed upon solution, based upon the power, relationships and interests of the various stakeholders involved. These stakeholders exist both within and without the organization. As there are many combinations of stakeholders and relationships that could be developed that would lead to different definitions of the problem, issue or opportunity and would also lead to different solutions an potentials for success, this can be considered a multi-variate problem that is dynamic.

The presumption then, is that the initial issue, problem or opportunity, as it originally stands, defines the organization necessary to deal with it. In other words, I argue that problems, issues and opportunities exist and that generally, stakeholder relationships form or coalesce from within and/or without existing entities that then become the organization which will further define the issue or problem and work towards a solution. The solution developed by the organization is also bounded or constrained by the original problem, issue or opportunity. This implies that a multi-variate dynamic exists that an organization must first comprehend and then negotiate in order to succeed.

Once I had developed this insight regarding the problem with the operational definition of an organization, I then considered why this situation exists.

Conclusion

From these two cases, I have learned that the stakeholder approaches are powerful tools that allow an organization to explore its environment from without and within in terms of the problem, issue or opportunity at hand. It also has become quite apparent there are critical assumptions made by members of current organizations regarding the identity and rationale for that organization that are neither shared by the members or necessarily related to the situation at hand. This fundamental misunderstanding or misconception of what an organization is about leads to a sort of "blindness" by members regarding critical options and potential obstructions that reduce the potentials for a successful outcome. This insight has allowed me to consider the fundamental rationale for the existence of an organization, which is to identify problems, issues or opportunities and work toward a solution. The real contribution made by the organization is directing knowledge and resources toward a preferred solution in such a manner as to enhance the potential for success. Therefore organizations exist as a transitional object between the definition of the problem, which exists in and of itself and the universe of possible solutions, which are constrained by the makeup of the organization.

I have therefore developed a historical rationale for the existence of the current presumption as a historical artifact of a bygone definition of an organization which was simpler in its context. And from this discussion, I again derive the same conclusion that is illustrated in the problem, organization, solution model developed from the action research, which is the stuff of the chapter nine.

SECTION THREE
DEVELOPED STAKEHOLDER METHOD

Section three explores possible rationales developed from external observations to further develop and support the theory has emerged from the action research method utilized in the previous section. Theory must be informed by the findings of research as well as reflect on how that theory helps to explain (or is explained by) real world situations. Chapter ten lays out my stakeholder approach based on the theory or an organization as a transitional object, designed to mutually define the problem, issue or opportunity and the constituent organization necessary to arrive at a preferred solution. This chapter should give the reader a working understanding of the process as well as the theory embedded in it. This process and the ones detailed in chapters four, five and six will then be applied and evaluated against the Boston banking case in section four.

CHAPTER 9

STAKEHOLDER ANALYSIS: THE IMPLICATIONS FOR NATURE OF THE ORGANIZATION

"You know something's happening
and you don't quite understand...
Do you.... Mr. Jones"
Bob Dylan

Introduction

Once I had found what I would describe as a significant dissonance between and organization's perspective of itself, what is and what works, I began to investigate whether there were examples and explanations within the larger context of society that would bear this out. Therefore I took a systems historical approach where I sought to identify any recent changes in the composition, or the environment of organizations that would support my findings. This would be important in order to help establish that my findings, which are the result of research within a small subset of the whole of organizations, were relevant to the whole. This chapter develops the argument that there are environmental and composite changes that have occurred in organizations that could explain the dissonance. I then continue to build the theoretical case to support the hypothesis that it is the problem, issue or opportunity that defines the organization necessary to deal with it. And that the universe of potential solutions to a problem, issue or opportunity are constrained by the organization comprised to address it.

Note: This chapter is designed to account for the "Reflect on Theory and Reflect on Meaning" steps illustrated in figure 3.1: "The Relationship Between Action Research Method and Theory Development" and discussed in chapter three. It represents my thinking to date regarding why organizations sometimes have difficulty recognizing the utility of the process. Essentially, this is an exploration of the history of organizations to identify reasons as to why this problem has manifested. I, by no means assert that this chapter represents a complete overview or that I have exhausted all possibilities. Further exploration in these areas certainly will be the subject of some of my future research. I have however, developed several plausible explanations for why older organizations have difficulty adopting stakeholder processes and that these explanations support what I found in chapter eight.

A Systems Historical View

Changes in the relationships between public, nonprofit and private sectors

In the past, when the lack of transportation and communication technologies required private and public sector organizations to operate largely within a particular community, whether it be local, state or nation, rules and boundaries of behaviour were developed that allowed these organizations to function within that finite environment. The private sector was largely responsible to its owners and customers in what is commonly called the "production view of the firm." The public sector was largely responsible to its elected representatives and legislation. What goods were produced and how they were produced was a decision entirely up to the firm. Public sector organizational interests did not impinge as their acknowledged spheres of interest and operation were largely taken to be mutually exclusive. Of interest to this thesis, banks, who resided completely within the private sector, were able to choose what monies to lend, to whom and where with no expectation other than to satisfy the stockholders (owners) profit interests. What goods and services were offered by public and nonprofit organizations were decided by the requisite community, whether it be local, state or nation without input or interference from others. These rules and boundaries of behaviour worked as each community was successful due to the self-interested investment that each organization had towards the communities success. In essence, they were all in "one boat" and all parties would float or sink together. In effect, the community could determine whether the bank would survive or not and visa-versa. Survival is a primary goal of any organization and any action that seeks to ensure survival will be of vital interest to that organization. It follows then that private sector organizations would have incentives to seek out means to lessen the capacity of other organizations to affect their continuation.

From a banker's perspective, this required that loans be made to most sectors of the community, as these members in turn contributed directly to the success of the community, and therefore the bank itself. For example a bank would have to lend to farmers, grocers, industry and individuals as it required all these parties for the community and bank to prosper. The relationship was direct and easily understood. This does not mean however that banks had to lend to every farmer, grocer, etc. Banks choose not to do business with borrowers as determined by race, gender and religion but they could ignore a whole business sector only at their own peril. Government within the communities passed and enforced laws and built infrastructure following the same rubric as the "public good" (at least as it was perceived by the elites) was relatively easily perceived and carried out. The one exception to this rule in terms of the banking industry was where it was perceived by the community that actions by the bank interfered with the "safety and security" of the community. Safety and security are identified as issues to be handled by the governmental sector. Banking activities that transgressed in this area were addressed by laws enacted to ensure that these critical components of the community, such as the printing of money and monopoly control were regulated. Such agencies as the Federal Reserve and the Federal Deposit Insurance Corporation were established to oversee the safety and security of the money supply.

Technological innovations over the past fifty years have allowed organizations throughout the world to interact and grow well beyond traditional borders of community, state, nation and continent through ever increasing capacities to communicate and transfer goods and services. Both public and private sector organizations and firms now share common interests and goals with other organizations and firms around the world and indeed, with each other. These changes have produced two major and somewhat counter-intuitive changes regarding what these organizations can and cannot do. The first involves the ability for firms and organizations to grow beyond traditional boundaries of community and governance. Shipping, telecommunications, transportation and energy are but a few examples of private sector industries that have quickly grown to such a scale that they are largely beyond the traditional influence of any one community or government. This trend has largely broken the "quid pro quo" relationships formerly shared by the private sector and the community. Firms can now choose to ignore whole sectors on a community as they are not directly affected by the result. It has also answered the inherent need organizations have to ensure survival by reducing the capacity for any one community or organization to threaten its survival.

From a banking perspective, banks can now choose to lend only to selected communities or cohorts as their success is dependent upon a world market rather than the former direct cause-effect relations discussed above. The common economic term for this behaviour is "foot loose" in that the modern firm is capable of moving from one community, state, nation to another with relative ease. In effect, the old relationships that ensured successful communities, states and countries for centuries has changed.

Within the public sector, we see a similar trend develop in reaction to the foot loose phenomenon as government and public sector organizations such as unions and environmental organizations adopt an international scope and individual states and cities negotiate international trade and sister-city agreements. They also are much less dependent upon just one community, whether it is local, state or nation. From their perspective they can now marshal resources and support from many different areas of interest and wield that power selectively. From a banking perspective, the community and its public sector organizations can now choose from a number of banks all over the world it will either do business with or sanction.

The result of this first trend is that the private sector can now move freely between communities and choose what goods and services it will offer. At the same time, communities can set rules, customs and expectations upon private sector firms as they choose. And they can do so based upon interests and relationships that exist outside the community itself. So we now find that neither private or public sector organizations are able to assume there are common relationships and responsibilities based upon the old interpretation of community. This is true not only between private and public sector, but within each sector. Each organization and community is comprised of its own individual sets of norms, operating procedures and expectations that it must now be constantly negotiated in order to be successful.

During the transition between these two paradigms in the United States, banks were allowed to ignore selectively the lending needs of subsets of a community's economy which resulted in serious economic barriers for certain communities and people based upon their race, gender and ethnicity (Squires 1992). Blacks, Hispanics and Jews in particular suffered from this bias (Lukas 1986). The result was a reaction from both the governmental aspect of the public sector and the nonprofit side (Appendix A).

From the governmental side, minorities were able to organize across boundaries with other minorities and sympathetic whites to pass laws restricting banking behaviour that led to a discriminatory result. Laws such as the Community Reinvestment Act (CRA), Home Mortgage Disclosure Act (HMDA) and the Equal Employment Opportunity Commission (EEOC) were passed in the late 1970s to detect discriminatory behaviour and enforce compliance. Laws are of course, a negotiated political process within themselves and the private sector has a significant influence on the outcome of governance. This has resulted in the above laws being relatively weak and hard to enforce. In addition, the enforcement of these laws was delegated to the existing enforcement entities originally created to enforce issues related to concerns of safety and soundness. These organizations had well-established histories and norms that were well grounded in the concepts of safety and soundness. From their perspective, they had little in common with the new laws regarding equality of opportunity they were entrusted to enforce and not surprisingly, gave little attention to that responsibility. Therefore, banks could operate for years without realizing they were violating regulations and laws that were being arbitrarily enforced. However, since 1968, banks who choose to do business within the community of the United States are required to enact policies that result in relative equal <u>opportunity</u> for all potential borrowers to do business. If banks choose not attend to these regulations due to lax enforcement, that was a risk they choose to take, much as the choice of exceeding speed limits in an automobile is a risk individuals sometimes choose to take.

Based upon the above revelations of discriminatory activities, organizations within the public and nonprofit sectors also organized to enforce the "mores" of the community utilizing various means such as the press, consumer picketing and boycotts, and political pressure for enforcement by government. As these organizations also have scope beyond the community, they were able to bring pressure against bank operations existing in entirely different communities and activities. I have called this activity the "CRA of the streets" in testimony given to the United States Congress on these issues (House Sub-Committee Hearing S. Hrg. 102-904, 1992). While a bank may find that it has satisfied the regulators interpretation of the law, public and nonprofit communities have also successfully defined another set of mores that bank may have to attend to. So banks sometimes discover that an action in one community may result in negative consequences in entirely different communities and parts of their market. The problems for both parties, is that a community's perspectives and capacity to react varies dramatically (this point is demonstrated in chapter 12). So a bank might believe that they are operating within community standards because no one has objected to their performance. However, the lack of objection could be due to a lack of interest, energy or leadership which might change almost overnight. From the community's standpoint, banks may choose to violate community mores for a long time with considerable negative impact of selected individuals and minorities before a community is able to summon the energy to address the issue. I again use the concept of speeding in an automobile as it is a rather common driving violation in the United States that leads to many deaths and injuries with untold social costs. Every once in a while the issue is raised to some community threshold of awareness that brings about action, such as a child is run down by a speeding motorist. At that point, the whole citizenry is outraged and other speeding violations are carefully scrutinized for a time. So the activity of a bank or speeding citizen one day could have no consequences beyond profit or a faster transit, but the next day could lead to a community action or jail.

The conundrum produced by the processes discussed above are therefore counterintuitive. Banks are no longer subject to the "social contract" (Locke 1690, Barker 1960) within each community as they can relatively easily choose to leave, change products, or even choose entirely different markets to serve. This would appear to give them a tremendous amount of freedom to do what they choose. However, communities from both the governmental and public and nonprofit perspectives are also able to enforce behavioural expectations based on concepts of "public good." These expectations are no longer so easily identified or understood but are enforced through sanctions, or choosing another bank to do business with. This is now possible as the survival of either entity is no longer dependent on the other. Therefore, banks may be able to do as they choose with the same relative impunity as the speeder in the automobile. However, the potential of being caught in violation of community expectations that are not well defined and which may result in huge costs and humiliation is ever present. Figuring out what is acceptable behaviour, and who determines this, is now a far more difficult task than in the past when the public good was relatively well defined and banks were perceived to have far less freedom.

This new freedom tends to mitigate the capacity of any party to threaten the survival of another, but at the same time the "rules" for interaction and responsibility are now entirely dependent on negotiated relationships that can vary dramatically from one organization and community to another. Yet communities still tend to operate on the assumption that banks share common interests of public good with them based on common beliefs of survival. Bankers often hear in negotiations with communities that their decision to not offer a product or not lend in certain areas of the community threatens the community as a whole (Squires 1992). The correct answer from their perspective is: why are you telling me this as my interest is in the bank's bottom line? If the community does not do well... that is in the future and the bank can go somewhere else to seek profit. Banks and other private sector organizations on the other hand tend to operate on the assumption that their activities in one community will be valid in another. McDonalds Restaurants is known world wide for their signature "golden arches" which they put up in front of every restaurant they build. They were shocked when the city of Boston told them they could not put these arches up in the city as they were considered not to be in good taste from the perspective of the community. McDonalds tried to force the issue, but after years of effort found that this was indeed one of the requirements for doing business in that community. In the meantime, other fast food chains were able to take advantage of the void to successfully establish themselves in the market to the competitive detriment of McDonalds.

Ramifications of changes in size and complexity of organizations

This change has to do with the growth in size and complexity of private and public organizations and the subsequent fragmentation, specialization and diffusion of power, which requires an different approach to management. In the private sector, transnational firms produce many different products and services that are not necessarily related or compatible. Within the Public sector, government, public and nonprofit organizations have also grown to support burgeoning populations that are ever more connected yet also footloose.

Management of these enterprises has become ever more difficult due to issues of increased complexity and size of subunits of these organizations. This has led to organizations that have developed management and organizational structures that are specialized and relatively independent from the overall organization itself. From a private sector perspective, chief executive officers (CEOs) may not even know all the communities the firm is involved in or what products are purveyed to whom. For example, General Motors used to produce only cars and trucks for the United States market. William C. Durant was the founding CEO of General Motors Corporation® in 1908 and is credited with outlining the principles of mass production, wide distribution and low costs. He became known as the "godfather of the automobile industry." Durant was hugely successful in the first decade of business by personally knowing what his firm was about. However the corporation kept growing and in 1915 it also became the Chevrolet Motor Company which was then capable of manufacturing and distributing a multitude of vehicles from various specialized production facilities throughout North America. By this time, Durant, who understood "size" better than almost anyone else found he was no longer able to manage the firm, yet he persisted in trying to manage the whole as he had done previously. By 1920, he was forced out of the corporation as a result of the very processes he had envisioned, yet failed to comprehend. General Motors had evolved past the ability of one manager who could control everything to a point where the job of corporate management was to manage management. That management then managed Durant out of the firm.

Yet even the triumphant managers of General Motors had trouble understanding the new paradigm. For example, General Motors currently not only makes and sells cars, trucks, generators and aeroplanes but also offers loans and insurance in selected areas of the United States and the world (among many other operations). The corporate rationale for creating the lending operation was to help the firm sell its wares and maintain market loyalty and share. Essentially, General Motors wanted to capture customers by making it easy to buy their vehicles by offering financing, particularly in areas where the firm was losing market share. Many of these areas where they were losing market share were experiencing market downturns and high unemployment which made it difficult for these people to afford an expensive GM product. At the same time, the management philosophy for each part of the firm is managed by the assessment production expectations and evaluation of their profits. In other words, it is not who you sell to, it is how much you make for the company that determines your reward. Therein lies the problem, the lending operation (which has been hugely profitable for the corporation) had chosen to not market in areas where the economy was not doing well as they perceive a higher risk of doing business in those areas. Yet the very reason the operation was developed was to help the corporation out in those markets which were depressed and the corporation was losing business!

In summary, General Motors and other firms like it are now so large that the money each of them work with every year is larger than the Gross National Product (GNP) of many nations. This size has led to many scale economies and the ability to better control markets and therefore, reduce risk. The net effect is that these behemoths are relatively safe from direct threats to their survival and insulated from the effects of local market downturns (portfolio investment theory). At the same time, these organizations are less able to directly control overall operations as parts of their whole may have differing objectives and competing needs for resources.

Within the public and nonprofit sector, the trend defined above has continued (albeit at a different scale). The populations these organizations are charged with serving have burgeoned to the point where large public and nonprofit entities must manage the management of agencies within the organization. There many are examples of this paradigm that mirror the General Motors example. The city of Boston experience (chapter 12) with the banking case is a good example and is why I will not be investing as much space in this chapter describing the public and nonprofit sector as I did the private sector.

Within the city, I found that the mayor, city council and at least three departments all had interest and power regarding how banks operated regarding housing in the city. I also found that these different groups often acted in a manner that clearly demonstrating that city government was a collection of powerful entities who had to constantly negotiate with one another. Therefore, banks and community organizations had to realize they had at least five organizations to deal with when they approached the "city" and that an agreement with one did not necessarily guarantee that all would honour it. Two examples are when the Mayor unilaterally created a banking commission and a linked deposit programme and when the Public Facilities Department actively opposed and helped to defeat an agreement between the BRA, Mayor and the banks.

Several others have arrived at these same general observations regarding the behaviour of organizations from different tracks. Three authors in particular have ably described these developments. Eric Trist (1977) has identified these phenomena as "turbulence" which he argues is increasingly evident in the contextual environment of organizations. Russell Ackoff (1975) call these systems "messes," while Donald Schon (1971) asserts in possibly the best development of this argument to date that "we have lost the stable state." It has been said that the President of the United States must on average, give an order at least five times before it will be carried out. While I have not been able to find a cite for this, it supports this perspective of autonomous agencies and departments which argues for the unpredictability and worse yet, the unreliability of organizations.

Therefore, we find that organizations in both the public, non profit and private sectors are no longer what they are assumed to be. The capability for any one individual or organization to act autonomously both externally and internally to their organization becomes increasingly constrained. Within these sectors and internal to the organization, organizations are no longer able to "hire and fire" whom they choose as they must follow various governmental and community dictates regarding equality and perhaps union dictates regarding contracts and seniority. External actions are also constrained by local, national and international laws such as the local zoning ordinances, interstate trade regulations, trade embargoes and the National Free Trade Agreement (NAFTA). My point is not that all the rules regarding how organizations act both externally and internally have been repealed. Rather that these rules are now unreliable in terms of strategic management, management and planning and therefore, making assumptions based upon those rules is folly.

What has not changed however is why organizations exist. In essence organizations exist or are created to address problems or issues, whether they are public, non profit or private. Katz and Kahn describe organizations in terms of their function as input - output mechanisms, where this problem/solution cycle reactivates the system (1978). Cohen, March and Olsen (1972) go a little further to describe organizations as "a collection of choices looking for problems, issues and feelings looking for decision situations in which they might be aired, solutions looking for issues to which they might be the answer, and decision makers looking for work." At a basic level, private firms operate to answer a community's need and profit from it. Public and non profit organizations exist largely to answer communities needs that the private sector is unable or unwilling to address. The usual course of events has been that once an organization is created, it is considered to be authorized to take on whatever new problem or issue it chooses (within reason). Indeed it is common for entrepreneurial managers who work to expand the range of services or products provided by an organization to be rewarded. But we have seen from the General Motors and Boston examples that organizations can easily grow to the point where they compete against themselves in much the same manner the mythical beast named Arborous ate its tail. Therefore, we should no longer assume that the existence of an organization necessarily means that it is correctly comprised to deal with a problem or issue other than the one it was formed to address. That we must devise strategic management, planning and management processes that first examine what would be the proper constituency and resources necessary to successfully handle the new problem, issue or opportunity.

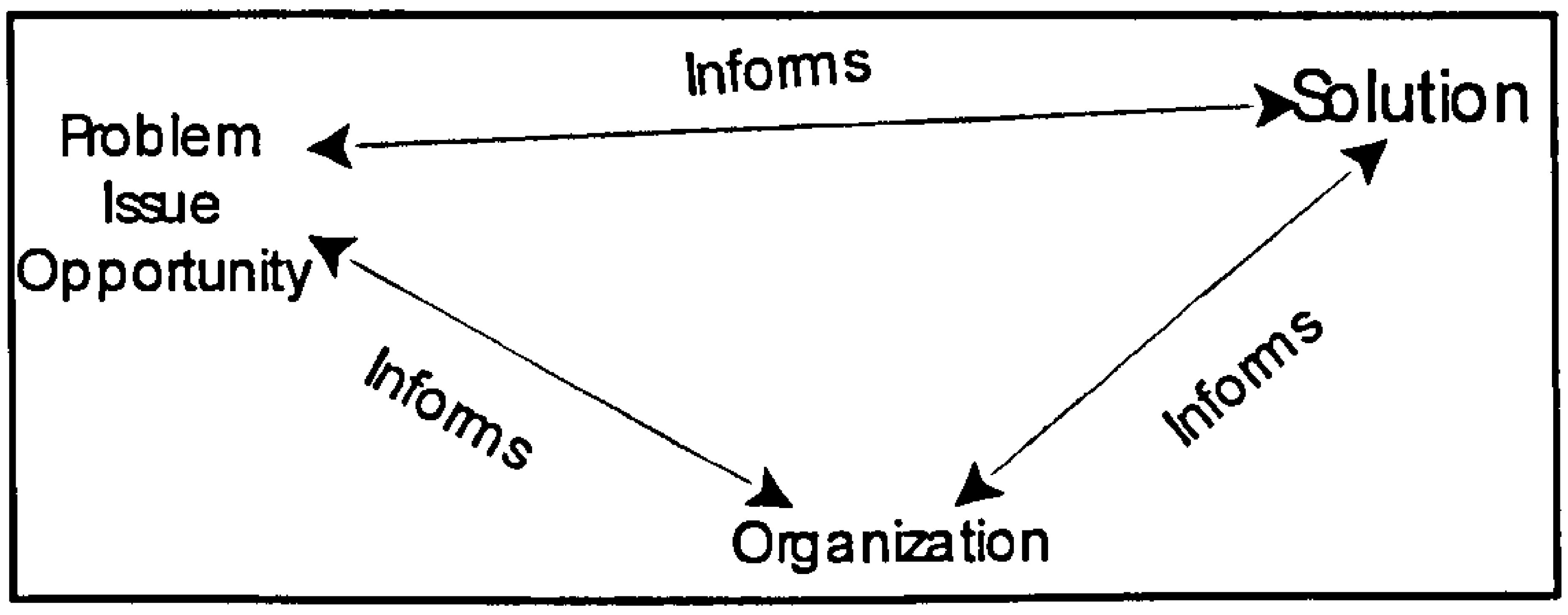


Figure 8.3 Organization Matrix

An Example

It might be helpful to explore the above matrix with a common problem, issue or opportunity that eventually faces everyone and everyone should have some thoughts about... namely death. For this example, three avenues will be discussed. The first is when no organization exists and the other two are from different organizations.

Death with no organization involved

Defining the problem, issue or opportunity (or not)

The definition of death as with most problems, issues or opportunities varies immensely. Medically speaking, death could be understood as when all functions cease or perhaps when brain activity ceases. A religious sect in California decided they would defy death and gain everlasting life by committing mass suicide so they could join a group of aliens in a spaceship hiding behind a passing comet. Others would discuss an intellectual death or when life ceases to be tolerable. Members of the so called "pro-life" movement argue that you can die before you are born... And others write of the death of the soul. So the definition of death is not all that well elucidated or perhaps, it means many things to many people. In reality the definition of this term is the subject of intense debate and altercation throughout societies and time. From the perspective of an individual addressing the problem of death, the various definitions and debates are of no consequence as the individual exists within their own construct system. However, if a group or an organization wishes to address the problem, they must come to some agreement regarding the problem. Weick (1979) argues that organizations are really about organizing, which he defines as a "consensual ly validated grammar for reducing equivocality by means of sensible inter-locked behaviours." Weber (1978), with one of the more constrained definitions of an organization: "A circle of people what are accustomed to obedience to the orders of leaders and who have a personal interest in the continuance of the *domination by virtue of their own participation* (my italics) and the resulting benefits, have divided among themselves the exercise of those functions which will serve ready for their exercise," infers the members of the organization have accepted the concept of a common definition. Therefore, coming to an agreement on just what death means would be a critical first step for any group or organization wishing to address it. In other words, we would be defining and/or discovering the problem, issue or opportunity. But in this case, as there is no organization to define and/or discover the problem and death will mean whatever it does to the individual. There would be no efforts to explore or define or compromise about the issue.

The Solution to the problem, issue or opportunity (or not)

Given there is no definition for the problem, issue or opportunity, the universe of possible solutions is neither constrained or probable. In other words, the issue of death could have no solutions or all of them, depending on the interpretation of the individual observing. As we are talking about death which as far as I know is inevitable in at least one or more of its forms, it does appear that there will be a solution of some sort. John M. Keynes once said regarding the disposition of various arguments regarding the effects of economic principles and actions that "in the long run, we all are dead," which is a position that I will not argue. Given this, we can infer that every problem, issue or opportunity will effect some solution. Therefore, the very existence of such a construct will inform a solution.

From this rather simplistic example, it can be drawn that the organization is the forum where the definition of the problem, issue or opportunity is realized, whether this is through a discovery or decision processes. It can also be deduced that the process where this definition is formed also begins to constrain the possible solutions. If physiological death is the problem, then solutions would address the problem or issue (I wouldn't call this an opportunity) of physiological death. For the sake of working this through, I will continue to use this problem, issue, opportunity <-> solution situation for the next two examples.

An organization of medical doctors

Defining the problem, issue or opportunity (or not)

If the organization is comprised of medical doctors, their interpretation might be to look for solutions that ensure the body continues, regardless. Processes that feed and clean the body as well as generally keeping things in motion would be their focus.

The Solution to the problem, issue or opportunity (or not)

For this group, success would be construed as keeping a body going at any cost or effort. Therefore, this organization would strategize and act to increase potentials that bodies live as long as possible. Success would be enabled by investing in drugs, machines and surgeries that ensure the body keeps going.

The description offered above should sound familiar to many who have worked with members of this profession and this is particularly true for me as a citizen of the United States In fact, this approach has been the operational condition of medicine in that country for countless years. The National Institute of Health case discussed in chapter four, where the Nutt and Backoff stakeholder approach was tested was very much about this issue. Namely that the United States medical practice and research had been almost completely focussed on prolonging life (antithesis of death) through any and all avenues. In other words the environment in which most medicine is practised in the United States directly affects the organization's interest, knowledge, predisposition and resources available. The Office of Behavioural and Social Sciences was constituted by the United States congress as a response to years of stonewalling on the issue.

An organization of psychologists

Defining the problem, issue or opportunity (or not)

This group might interpret the problem, issue or opportunity of prolonging life in the physical state to include quality of life (or death as the interpretation warrants). Solutions would be sought after that encompassed the physical and psychological aspects of life and/or death.

The Solution to the problem, issue or opportunity (or not)

For this group, success would be construed as keeping a body and mind going in a manner that would allow the individual to determine success. Therefore, this organization would strategize and act to increase potentials that bodies live as long as possible within acceptable psychological parameters. Success would be enabled by investing in not only drugs, machines and surgeries that ensure the body keeps going, but therapies that ensure comfort and capacity. Evidence of successful solutions from this perspective are "hospices" and other facilities that tend not only to the physical condition, but the mental outlook as well.

From these two examples, we can draw that the organization can indeed inform the solution in terms of the definition of the problem, issue or opportunity; and the composition and environment of the organization; and therefore the strategies and actions that then are set in place towards solution. And by doing so, the organization directly influences the potential for a selected set of solutions from the universe of possibilities.

The question that this example begs is what would happen if the constituency for the organizations was not determined? Would it be reasonable to expect that the medical doctors would be either willing or capable to move toward the solution espoused by the psychologists? I would argue that their knowledge, predisposition and resources would predict that they would not be the best qualified to address this definition of death. I would again call up the saying that "if you give someone a hammer, every opportunity begins to look like a nail."

So, the organizational matrix is supported. Problems, issues or opportunities will predict a solution in and of themselves. Problems, issues or opportunities are informed and defined by the organization within its environment comprised to address it. And the possible solutions and the potentials for success determined by the composition of the organization within its environment. In other words, organizations must not only define the problem, issue or opportunity as they perceive it, but they must also agree on the boundaries of their definition, based upon the constituent interests of the parties involved. One way to address the question of what the problem, issue or opportunity is and what it is not is to employ a stakeholder analysis process that treats the problem, issue or opportunity as an emergent condition that is contingent on the group or organization constituted to address it, which is also an emergent process.

Conclusion

This chapter explored the historical evolution of organizations from a time when relationships in both the public and private sectors were relatively stable and predictable to when they are much less so. The ramification of these changes were then discussed in terms of the rationale organizations should adopt to meet these new challenges. This rationale is grounded on the basic reasons for an organization's existence, namely to discover and/or define a problem, issue and work towards agreed solution, given the composition of the organization and environment that will allow for the implementation of strategies and actions that increase the potentials for a successful solution. This leads to the development of the organizational matrix diagram. An example was presented which illustrates the utility of the organizational matrix. The point is made that the definition of a problem, issue or opportunity is a process that both defines and sets boundaries for the definition. The definition is emergent and the boundaries is contingent on the interests of the parties convened, which is also emergent. Stakeholder analysis is one process that helps an organization explore those boundaries. By this time the reader should be persuaded of the efficacy of the hypothesis in that it appears it is grounded in both operational, theoretical, historic and intellectual aspects. Given this grounding, the developed stakeholder brainstorming and influence mapping is presented next in chapter ten.

CHAPTER 10

FINN ORGANIZATIONAL MODEL

AND

STAKEHOLDER APPROACH

Introduction

This chapter introduces the Finn process and discusses its application. The reader should be able to assimilate and possibly employ this process based on careful attention to the steps and rationale presented. The approach is presented in such a manner that the reader could decide to use parts of or the complete process, based upon an estimate of need.

Finn Process

The major difference between this approach represented above and the three other stakeholder approaches examined in this thesis are that it is based upon different assumptions of composition and boundaries (environment) of an organization. This approach is founded on a different understanding of the why and for what organizations exist and function. The approach argues that organizations originate as a response to a perceived set of problems, issues or opportunities and continue in that vein. The import of this statement is that organizations will continue to exist based upon its ability to address the problems, issues or opportunities. As these stimuli change, the question of what organization will address it will be based on problems, issues or opportunities, rather than historical artifacts that existed to address a different context. My stakeholder approach is based on these premises and therefore it focuses on the potentials for developing an organization that is continually re-construed to address the particular problem, issue or opportunity. I make no assumptions that the new organizational amalgam will be contained within an existing organization, or is a composite of several organizations. If this approach has a radical component, it is that organizations must make themselves open to the question of their suitability to address newly apparent problems, issues or opportunities. It follows then that they must also be willing to re-think their mandate and composition. I posit that if my approach is correct, it will tend to increase potentials for a successful solution. Below are the steps used in this process with discussion.

Muse Exercise

As the composition of an organization comprised to address a problem, issue or opportunity should be based upon the problem itself, the first step of the process is the procedure to begin to define the problem itself. I call this the "Muse Exercise" in the manner that problems, issues or opportunities were identified in Greek mythology by a visit to a Muse. The "Webster" dictionary defines to muse as: "... to become absorbed in thought; especially to turn something over in the mind meditatively and often inconclusively." What is important about this metaphor is that the Muse was not necessarily the entity that would have to address the problem, issue or opportunity. Rather the first step in the process is to convene a group to explore the problem, issue or opportunity and define it in a manner that informs the members regarding its general form and who would have an interest in its solution and ramifications. This group could very well comprise the membership of the organization as it is formed as we must recognize that the definition<-->organization<-->solution process is an iterative one that must continually be evaluated as it progresses.

Defining the Problem, Issue or Opportunity

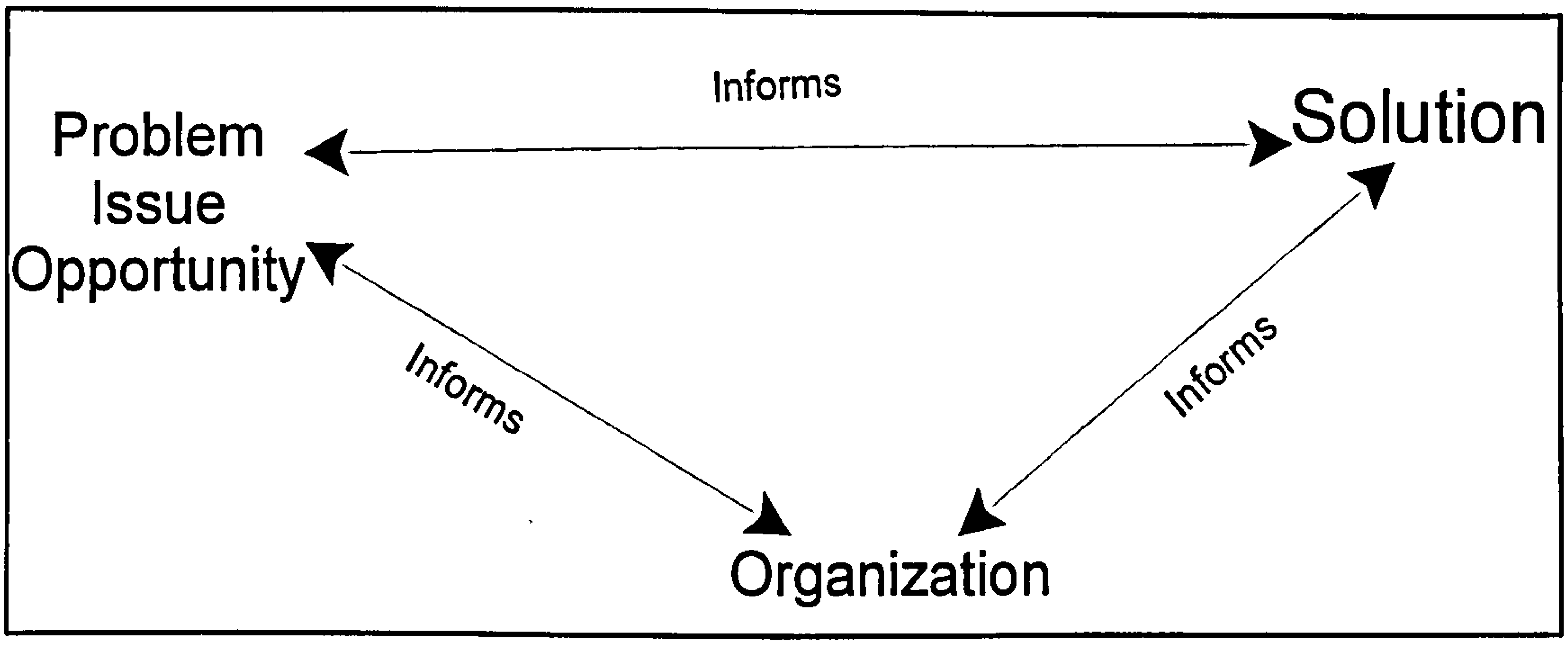


Figure 10.1 Organization Matrix

There are many different processes that are used to help identify the problem, issue or opportunity that could very well be situation dependent. Some of these involve a brainstorming process, a group attempt at a definition or a response to a charge or mandate. The approach that I have found to be applicable to my organizational assumptions is the "Hopes and Fears" process where attendees present what they individually consider to be the best hopes for the (yet loosely defined) process and the worst fears. This process is commonly used in the Organizational Design professions (my research has turned up no one to attribute its conception to). Hopes tend to detail the solution (or the ramifications of a solution) and fears tend to define the problem itself in an antithetical manner. These individual statements are then categorized, with statements then produced that represent each category. This exercise helps to identify the problem, issue or opportunity by defining the boundaries of the construct and developing a consensus regarding expectations and direction. By developing the definition of a problem, issue or opportunity through the setting of its boundaries, the group is also establishing parameters for the exploration of possible stakeholders. And the group is less able to define the context so strictly as to preclude possible stakeholders. This (and the succeeding tool) answer the concerns raised about meta-organizations in Chapter 6 regarding the propensity of organizations to define problems, issues or opportunities as ones that are common across all stakeholders, without first exploring the various stakeholders intersecting areas of interest.

The Hopes and Fears boundary setting process also helps to set parameters for the potential options regarding possible solutions. This is due to the direct relationship between the composition of the organization and the solution in process of posing the problem, the organization tends to predict the solution. The old saying that "if the only tool a person has is a hammer, then every solution will become a nail" (Anon) predicts that the composition of an organization will directly limit both the potentials for and of a solution.

Deriving the 'Proto' Organization (Exploring Boundaries)

The second step is the Stakeholder Brainstorming process. Individuals are asked to list all individuals and parties that should be considered as stakeholders. I ascribe to the same definition of stakeholder as Bryson does: "any person, group, or organization that can place a claim on an organization's attention, resources, or output or is affected by that output" (1995). This list comprises the potential stakeholders of the organization and the establishes the sphere of influence and debate that will have the potential to address the identified problem, issue or organization. I have called this the "proto" organization, derived from the Greek word "prot" or "protos," which translates as "first time, beginning, giving rise to." This aptly describes this stage as the first phase which is expected to be evolutionary. This approach rules out amorphous groups such as the public or the poor which are not necessarily helpful to defining an organization. These ideas are then combined to obtain as exhaustive set as possible. There are few rules for this stage other than to encourage members to define stakeholders in a manner that would allow for the identification of people who could be representative of the group.

Defining and Bounding of the Organization

At this time, some discussion inevitably arises regarding questions of support and opposition among the listed stakeholders. These conversations can relate to questions of function, competition, secrecy, power and coalitions depending on the topic. This natural progression is an example of the dialectical process Nutt and Backoff base their approach on in that people endeavour to identify abstract or nebulous subjects by first describing what it is "like" and what it is "not like." Eden and Ackermann recognize this progression and ground part of their approach on the work of George Kelly who also ascribes to the dialectical approach to definitions. He defines a subject by what it is and what it is not.

Thus we are moved by a human condition to explore potentials of relations and relationships and accordingly, gain a greater sense of what the potential organization is and is not. Therefore, we must develop a process that helps us explore the definition of the organization in terms of function, competition, secrecy, power and coalitions. By raising questions about <u>relations and relationships</u> regarding <u>function, competition, secrecy, power</u>

and coalitions, we are combining techniques from the organizational theory schools (Schein, 1992) of Culture and Symbolic Management with Power and Politics (Mintzberg, 1983).

The method involves a basic grid structure with four levels of sophistication that further refines the organization's composition. The basic stakeholder grid develops a relative scaling of stakeholders in terms of how important the identified stakeholder is to the process of achieving a successful outcome for the identified problem, issue or opportunity.

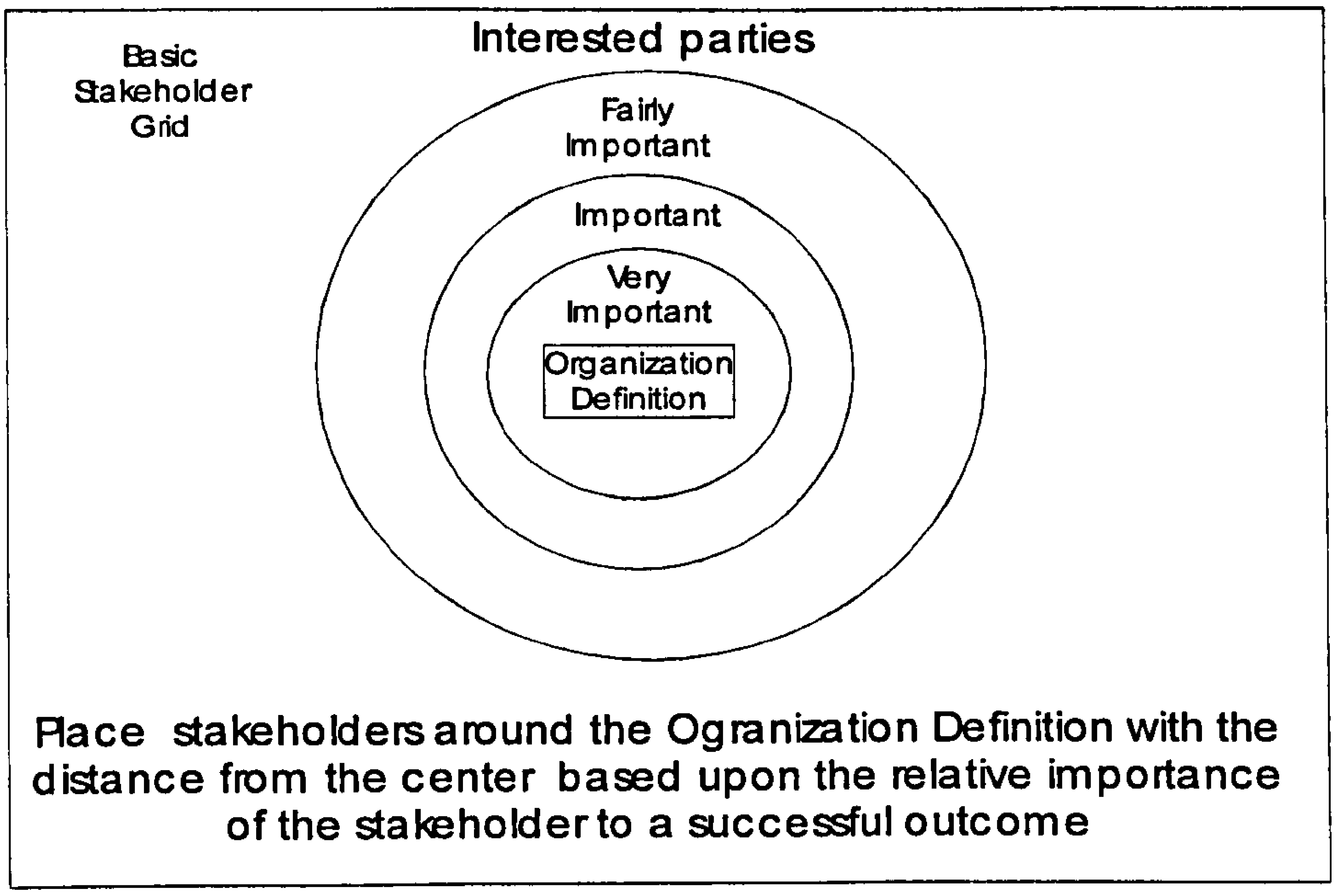


Figure 10.2

By using the basic grid, group members are able to identify stakeholders in terms of their importance (power) to a successful outcome. This first cut only illustrates certain aspects of the power component, but does allow the group to be able to quickly identify key stakeholders who should be taken into account. Another strength of this approach is the identification of stakeholders who are relatively unimportant to the success of the effort who would be classed as interested parties. All too often, stakeholders are discussed without identifying their power or interest regarding the problem, issue or opportunity in a relative manner. This lack of focus allows the group to waste resources as there is no relative assessment. For example, a common misconception by groups is that one party (often the sponsor of the event) is more powerful than they actually are. Other actors at the meeting often defer or try to negotiate separately with the party as if they were of less importance, even though the objective is to form a "definitive" organization that is understood and agreed upon by the key actors. When the actor is viewed within context of who will have to be included for a successful outcome however, it is often found there is a "core group" who are acknowledged by the group as key to a successful outcome that addresses the group's construction of a problem, issue or opportunity. Once it is identified, this core group represents the stakeholders that members could begin to consider including in the planning and management process (internal stakeholders).

But the assessment of power also needs to account for the influence relationships. These relationships are very much part of the relative ability of a stakeholder to influence the definition of the problem, issue or opportunity and the affect the outcome. For example in the public sector, I worked with a group trying to get a city and developer to acknowledge requirements for pollution abatement in the construction of a large shopping centre. Storm water runoff from large developments such as this have proved to significantly add to the pollution of lakes and streams. This group was comprised of members whose position on the issue varied in terms of a response from a moderate protest along city channels to others who wanted to fight the development by all means possible, including the courts. The city and developer controlled both the resources and the political decision apparatus regarding this issue and the group had little power. This allowed the city and developer to proceed with little public debate or resistance. A stakeholder analysis and influence mapping process revealed that a retired doctor who had tremendous respect in terms of integrity and support for the community was associated with one of the less powerful members of the group. This group member was one of the "moderates" in the group and was able to recruit the support of the doctor (on his terms). This dramatically altered the position of the group and it was decided to pursue the moderate approach. The doctor's influence and respect in the community elevated this issue into a full public debate.

This same experience can be observed not only in public organizations, but in every organization whether public, private, nonprofit. It manifests itself both as an internal organizational dynamic as well external. Most importantly, it reveals how the power of internal-external relationships can dramatically change the whole problem, issue or opportunity=>organization=>solution matrix as was demonstrated above.

Therefore any analysis of this sort must account for these relationships as they are so much a part of any organization. The power analysis of any stakeholder should reveal not only their individual power, but the capacity to influence others and perhaps form a coalition either for or against the position of an organization. For these and other reasons, I developed the Stakeholder Influence Mapping process.

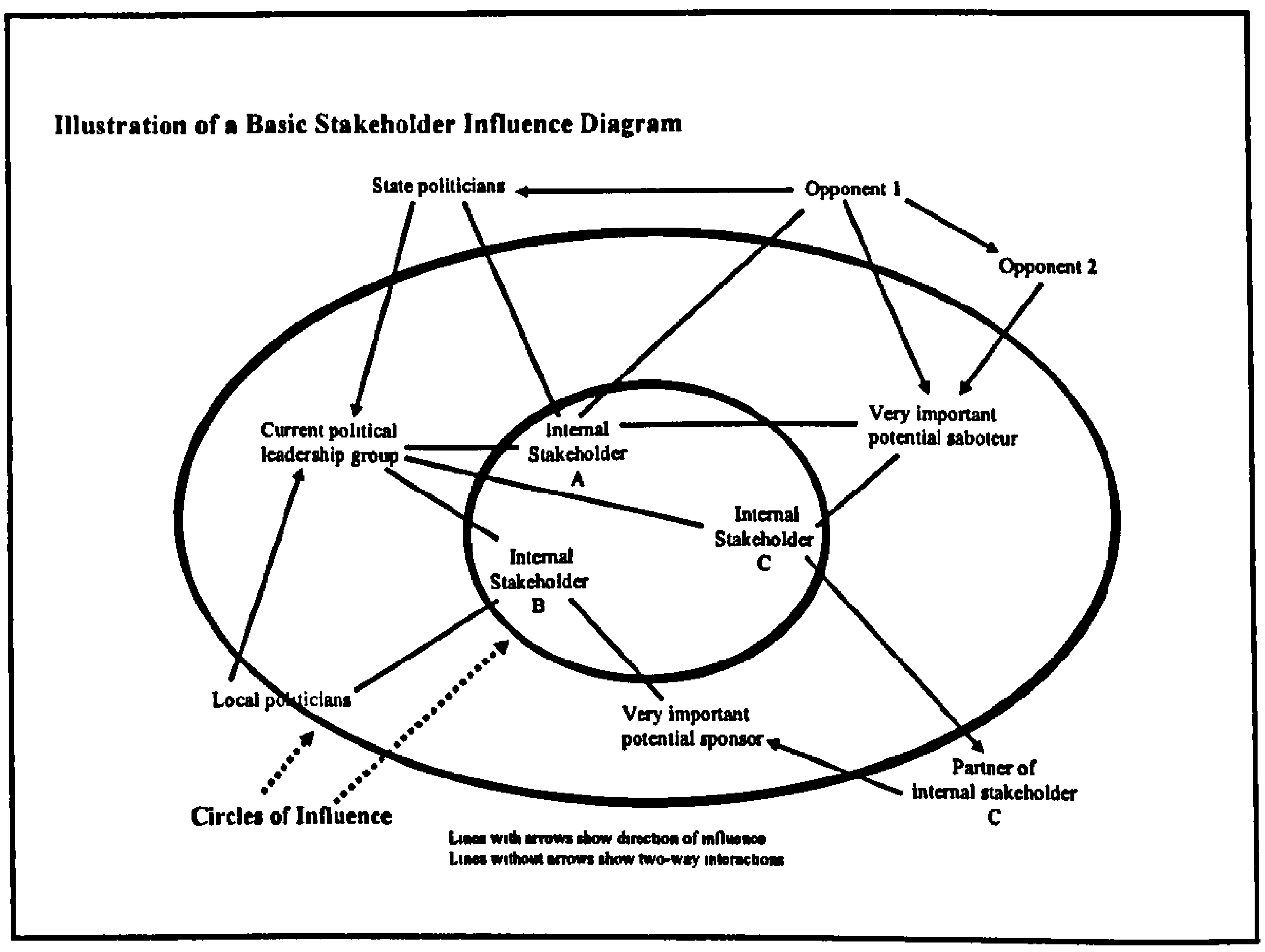


Figure 10.3

The basic Stakeholder influence diagram demonstrates influence relationships between stakeholders in terms of the problem, issue or opportunity. Arrows are used to connote one-way relationships to indicate direction. This direction could have many reasons, but perhaps the two most common have to do with power and information. The power influences usually involve a superior-inferior relationship where direction or instructions flow one direction. Information influences usually involve the normal conduit flow of information between two stakeholders. Lines without arrows represent two-way relationships where information flows both directions or where neither stakeholder has power over the other.

This diagram however does not include the important contribution that Nutt and Backoff made to stakeholder analysis regarding the question whether the stakeholders are supportive of the proto-organizations' interpretation of the problem, issue or opportunity or not. Also, to what extent does that support vary in terms of willingness to support? Thus, another dimension was added to the diagram to help the members better understand this relative measure. For support or opposition can only be interpreted in relative terms. I have used the horizontal or "X" axis of the grid to represent this dimension. Members organize the stakeholders from left to right across the diagram, with the least supportive being on the left.

This is a more complex dynamic than it first appears however, as it is an attempt to relate three different variables on a two-dimension grid. For example, where could a stakeholder who was both very powerful and very supportive be located? Or one that was very powerful and very opposed? The answer to this placement would be to locate these stakeholders along a geometric curve which represents an inversion of the derivative of the circle around the internal stakeholders as is represented in "hourglass" diagram below. The lines demarcating the strength of support or opposition would to take on an hourglass like figure.

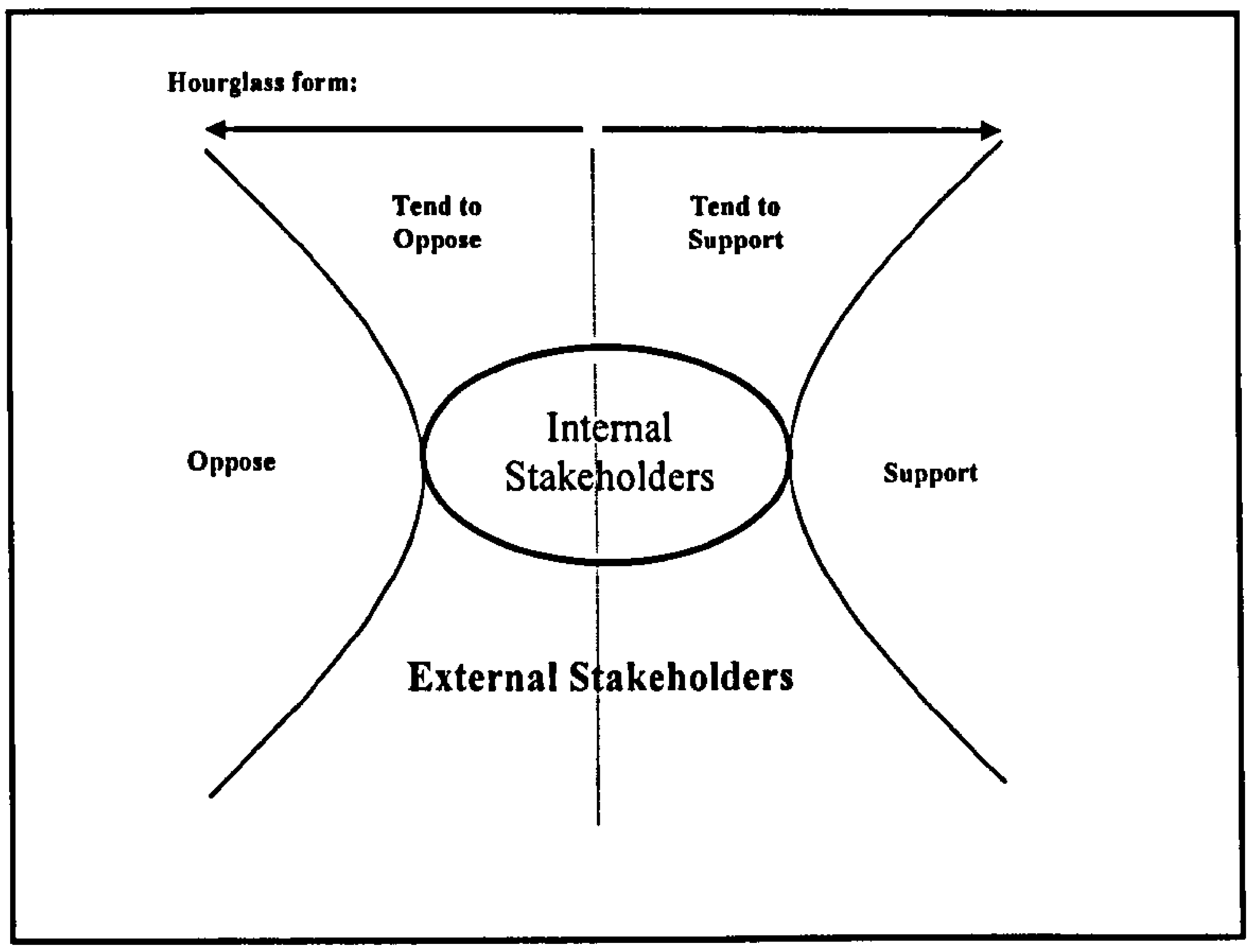


Figure 10.4

My experiences with groups was that it was too hard for them to work with such a diagram (Figure 10.4) as they needed to devote their attention to the content and not the process. Therefore, I adapted the diagram to one that is less rigorous in terms of geometry, but more easily understood by members of a group. It also allows for three very important options that enhance the utility of the model. First is the ability to desegregate the outright supporters and opposition, which allows the group to focus on the members who can be persuaded, much in the same manner as Nutt and Backoff (chapter four) and Eden and Ackerman (chapter six) suggest would be helpful.

Second is the ability to examine the internal stakeholders in terms of relative and support for the organization as it is comprised to answer the defined set of problems, issues or opportunities. It would be naive to believe that all members of the organization or group are equally supportive of the effort. This process acknowledges this and allows for exploration by the group of this potential problem.

Third, it should be recognized that the liberation from the geometric rule allows the area to locate stakeholders who do not outright oppose or support the organization to be stretched as needed to accommodate the space needed to illustrate the number of stakeholder perspectives.

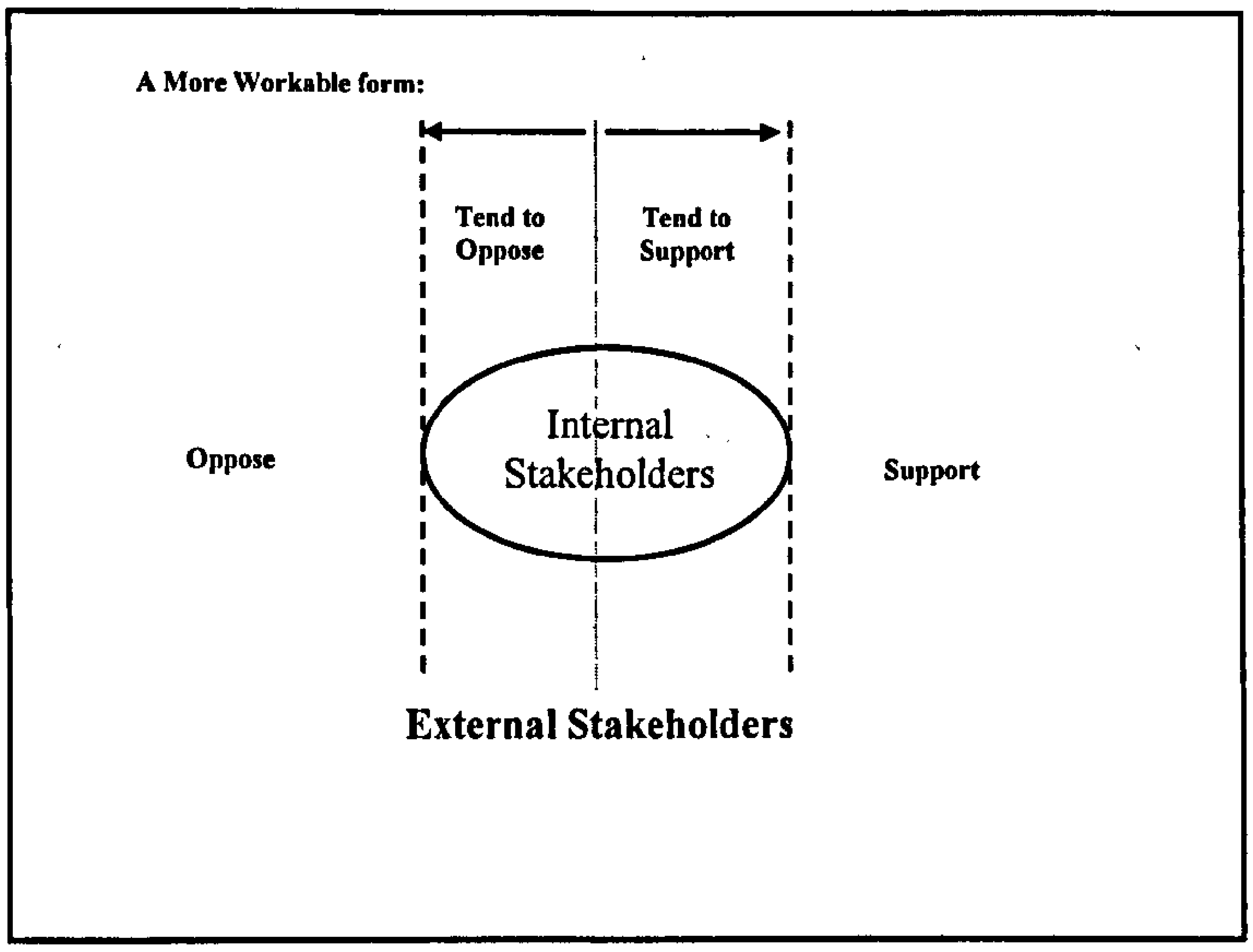


Figure 10.5

We can now take this modified form and apply it to the Basic Stakeholder Influence Diagram. As can be seen below in figure 10.6, this diagram allows for various definitions of a stakeholder in terms of influence and support. It should be noted however, that there is no varying measurement for stakeholders in terms of support or opposition if they are located in the areas marked **Oppose** and **Support**. Therefore, all we know about stakeholders labelled Opponent 1, Opponent 2 and Very important potential saboteur other than they oppose the organization matrix, is their relative importance to the organization comprised.

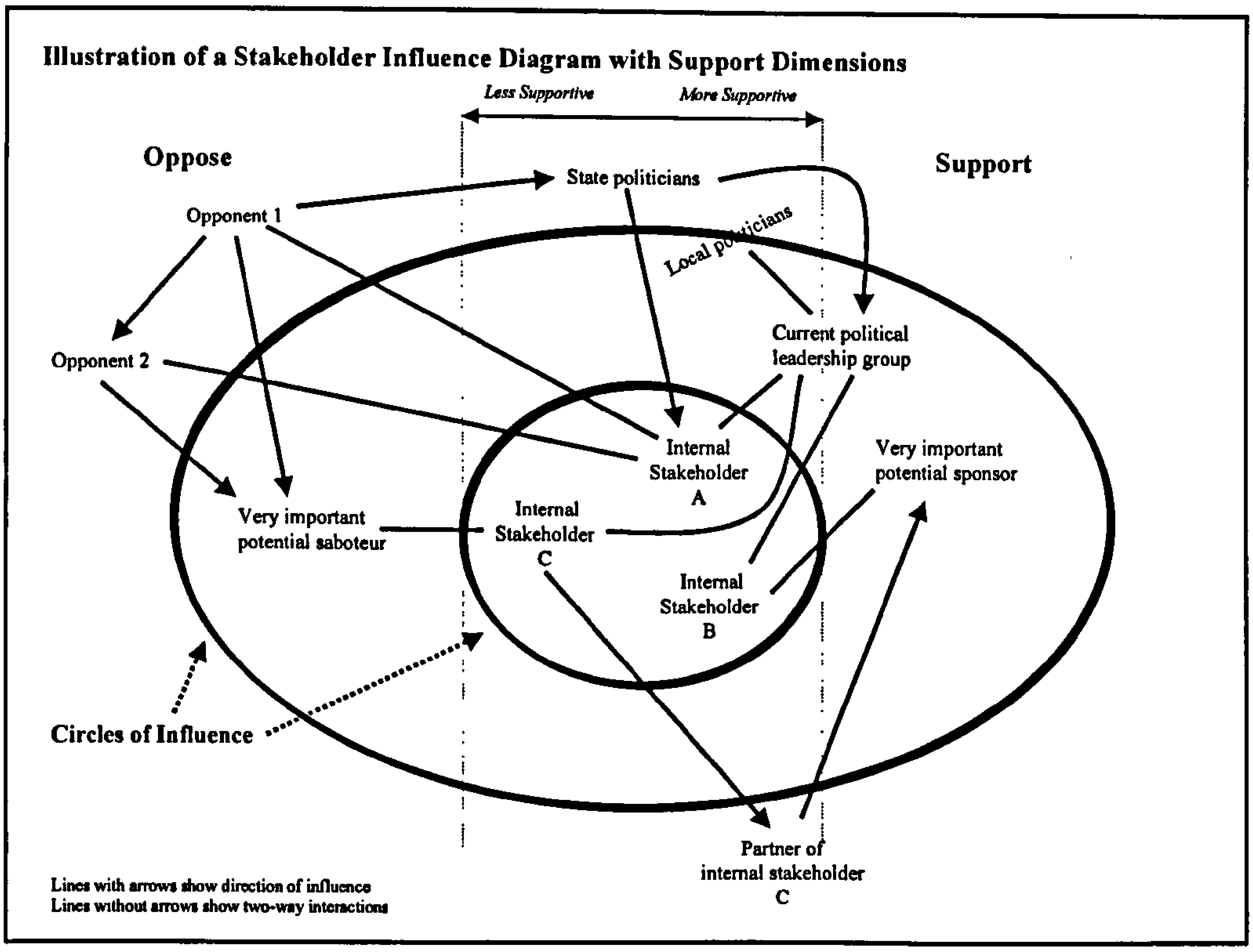


Figure 10.6

We can also observe that Partner to internal stakeholder C is fairly supportive, but not very important to the process. Unless of course the influence link to the stakeholder labelled Very important potential sponsor is taken into account.

Another example is the situation of Internal Stakeholder C. This internal stakeholder is less supportive of the effort than the other stakeholders and has links to the Very Important Saboteur and the Current political leadership group which are fairly supportive. If this stakeholders support is necessary to persuade his partner to influence the Very important potential stakeholder, then the group may first have to address the potential conflicts of influence this party is facing.

Inclusion of Management and Production Stakeholders

A final addition to the map was incorporated due to the experiences reported earlier that I have had with organizations I have worked with, including the Texas case. At this time, I had developed no theory to back this observation up other than to state that I am still in the stages of observation in terms of action research. This has to do with a certain blindness organizations seem to have in terms of incorporating the thinking of not only the managers and planners but the production side as well.

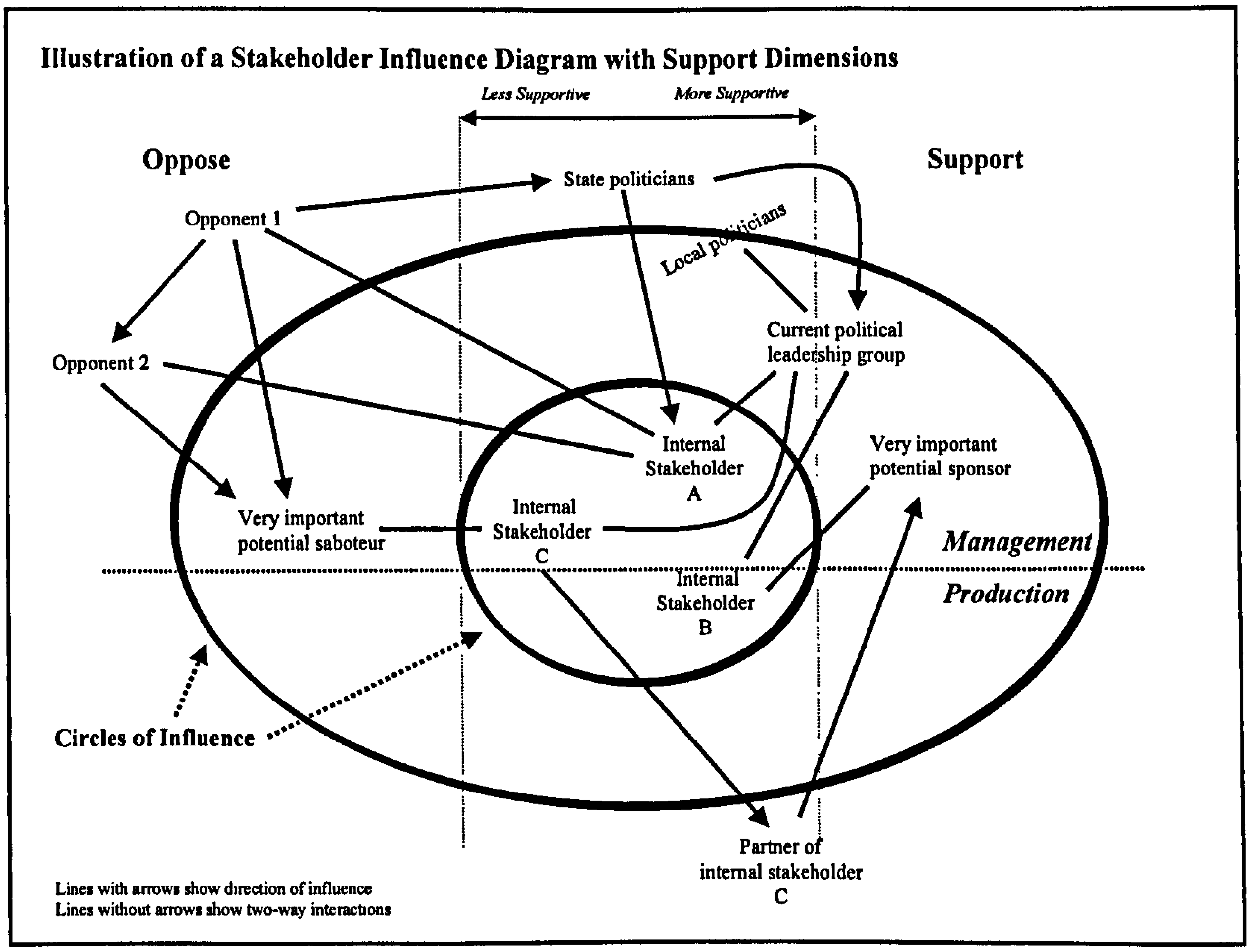


Figure 10.7

There is a lot of discussion, writing and research currently underway under the broad rubric of Future Search Conferences (Weisbord, 1992) that speak to the inclusion of all stakeholders in a planning effort (Ackoff, 1974). This writing argues that planning efforts often fail due to lack of insight among the planners and managers due to incomplete understanding of key facets of the organization and lack of commitment by the stakeholders who are required to carry out the solution. Within the Texas case, the parents of the students with disabilities, who were essentially one of the major "producers" in terms of development of the student were excluded from the original group due to this type of blindness.

Therefore, I have lately incorporated this variable into the diagram to ensure some consideration has been made of these stakeholders who seem to be overlooked... especially within the membership of the internal stakeholder group.

I first mentioned the internal stakeholder concept when discussing the basic stakeholder diagram above. I did not however, go into detail as it really was not appropriate to make the decision regarding which stakeholders should be included in the organization at that point. This is due to their investment in terms of power and influence until all dimensions of the stakeholder relationship had been explored. The decision regarding who should be included as an internal stakeholder is the major reason this process has been developed. As I argued earlier, organizations should be comprised to best identify and address problems, issues or opportunities that have increased potential to incorporate a solution. Therefore, the decision as to who is an internal stakeholder or member of the organization is the first critical decision to be made by the proto organizational group. This decision will not only predict the definition of the problem, issue or opportunity, but will also limit the potential universe of solutions the group will consider. For these reasons, the dimensions of power, influence, support and opposition, and management and production must be considered in order to develop a stakeholder set including the necessary members to successfully incorporate the solution.

A second important outcome of including the influence dimension is the understanding by the organization regarding the relationship that external stakeholders have in terms of gaining a successful solution. This approach clearly maps those relationships that will both help the organization understand the full complexity of the organization matrix. Organizations should incorporate this knowledge not only in the formulation of the organization, but in the strategy of implementing the solution.

A third outcome from this process is the direct consideration by the group about the stakeholders that oppose them. One question that should be asked is whether they should not be part of the organization as it may increase potentials for success. Another, perhaps more important finding is the identification of the stakeholders (and networks of stakeholders) that will have to be dealt with in order to be successful.

Conclusion

This chapter presented a process that is designed to develop the definition of a problem, issue or opportunity and the organization best suited to address it by first exploring and defining the boundaries of a problem utilizing the Muse exercise. This information then informs the stakeholder brainstorming process which in turn informs the stakeholder influence mapping process, which helps the group derive the first the Proto organization based upon analysis of the problem, issue or opportunity in terms of the environment and potential constituents of the organization. The resulting organization will have a relatively greater potential to attain a successful solution as it as addressed not only the problem, issue or opportunity, but has also explored the boundaries of that definition based upon the interests of the members of the organization, based upon their perspective and their relationships with other stakeholders. The reader should have gained a basic and possibly working understanding of how the process works and realize the relationship between it and the theory it supports.

SECTION FOUR
EVALUATION OF THE APPROACHES

This section develops the research methodology used to present the Boston banking case in a manner that allows for the application and evaluation of the four stakeholder approaches in terms of their extrapolated effect on the case. Chapter eleven develops the methodology that develops the significant events in the case and the stakeholder list to be used. Chapter twelve develops the case so the reader can comprehend the actors and events well enough so the application of the four stakeholder approaches can be understood in terms of the context of the event. Chapter thirteen has five parts. First is the development of the evaluation methodology with the setting of certain constants and a scoring method. The succeeding parts deal with the application of the four stakeholder processes to the Boston case, with extrapolation and scoring of the outcome against the original outcome. The intent of this section is to give the reader a reasonable comprehension of how the four approaches could be applied in a case such as this so an evaluation can be made by the reader regarding what approach would work best for in their situation. This evaluation is not intended to establish any of the processes as being better than the others as the situation, requisite skills or the organization and resources are also predictors of which approach will be successful.

CHAPTER 11

CRITICAL INCIDENTS METHODOLOGY

Introduction

This chapter has two purposes. First is to introduce the method of analysis employed to extract the information from the Boston case so the reader can both understand the critical history of the case and so that a set of evaluative criteria could be produced that is grounded in the aims of the stakeholders comprising the community perspective and the intent of the Community Reinvestment Act, in order to evaluate the four stakeholder approaches. Second is to give a brief introduction to the Boston data gathering experience along with discussion regarding how the case was constructed. This is necessary so the reader can understand the context the critical incidents method is applied to.

Background for the Boston Case

This case regarding investment and reinvestment activities by banks in the Boston area is not what might be considered the typical political science textbook public forum experience where actors deliberate and negotiate solutions over a meeting table or a progressive series of conferences. To the contrary, this case involved many meetings which were not necessarily related which involved different sets of stakeholders, all claiming the "high ground" of being able to authorize forums for discussion and subsequent decisions regarding problem, issue or opportunity that were not generally agreed upon. From another perspective, this case is about many actors competing to position themselves as the arbiters of both the problem, issue or opportunity and its solution (a competition that I argue is really about determining the composition and boundaries of an organization). As is often the case for experiences like this, which are debates over the public good, there are no histories, meeting minutes or notes available as most of the meetings were choreographed events that reflected decisions made by the actors involved or they were intense negotiations between parties who wrote their own histories. In fact, two of the most important stakeholders in this case never formally met to negotiate during the process (Massachusetts Bankers Association and the Community Investment Coalition). In addition, the various activities, events and decisions in Boston took place over fifteen months. The result was that no single person or organization was actually involved in all the events or participated in all of the decisions.

The Boston newspapers however were able to attend and report on most of the events and serve as an excellent resource for a relatively unbiased history. Even when the newspapers were not allowed to attend a meeting, they proved extremely resourceful in ferreting out what happened.

Given the problems associated in developing a comprehensive record for this case in terms of stakeholder action, it is important that I address how I constructed my record of the events. There were two areas of concern to me that could lead to a biassed interpretation of this case. First was the issue of ensuring I was able to record the whole case. Second was given there was a whole series of stakeholders involved who were creating their own history, how could I be sure that I have the genuine interpretation of the events?

I was intimately involved in the first 2-4 months of the process. I interviewed all the actors and organizations in order to gain as complete an understanding as possible of the issues and their context so they could be included in my research. During the rest of the year, I was in regular contact with staff from the Boston Redevelopment Agency, community organizations and academics in the Boston area. I was regularly briefed by Boston Redevelopment Authority staff about developing issues and events as my report was constantly being revised to reflect new issues and interests as they developed.

Boston Redevelopment Authority staff and others also had another incentive to keep me informed. In order to protect my "academic freedom" which is part of my responsibility as an academic at a land grant university, I included as part of the contract that I had the right to publish my report whether the Boston Redevelopment Authority chose to or not. This clause helped to ensure that I was able to maintain a professional, unbiased perspective on the research, while at the same time gave Boston Redevelopment Authority staff real incentive to make sure that I heard from them regarding developments in the case. Other actors were well aware of this clause and they made sure I heard from them regarding their perspective. In effect, my employers were competing with other stakeholders regarding the content of my report and were well aware they could not "capture" my position.

I also maintained a newspaper clipping file from both of the major Boston newspapers. Given their active interest in this case, one could expect at least weekly reports in the newspapers regarding activities and summations from both the community and the banks perspective. This made them an invaluable resource for keeping track of developments in the case.

Afterwards, I met with James T. Campen, Associate Professor of Economics, University of Massachusetts, Boston, as he constructed the history of the case for his book chapter in: *From Redlining to Reinvestment: Community Responses to Urban Disinvestment*(1992). Campen has also helped me keep apprized of continuing developments as I continued to work with him by providing banking data so he could continue the banking analysis for the city of Boston through 1992.

Given the incentives to keep me informed and the other recording opportunities I was able to access during this case, I am reasonably confident that I was able to identify and record at least the major events with sufficient detail to construct this case. Yet, it was still the case that I personally had a vested interest in the case in terms of my contract with the Boston Redevelopment Authority and the nature of my research itself. Banks in general have not appreciated my research (with several significant exceptions). In addition, I had performed a preliminary analysis before committing to the research that clearly indicated there were lending results in the Boston data that could indicate a discriminatory approach by the banks. While not convinced, I was clearly open to the question of discriminatory banking behavior, which would encourage me to perhaps lend more credence to the community perspective.

In order to help ensure that I did not fall victim to some type of myopic bias on my part regarding reporting of the case developments, I have relied on an external source as a check of my work. Campen is perhaps the most knowledgeable person regarding all aspects of this case for two reasons. First, the major actors from the city and community as well as the consultant for the Massachusetts Banking Association shared their experiences with him in detail. Secondly, his unique position as an interested, yet "outside" observer of the events as they unfolded both during and afterward. Peter Dreier (the Boston Housing Director) was probably more knowledgeable about certain events, but was intimately involved in the process and therefore, may harbor some inherent bias. In addition, Dreier has moved on from Boston and therefore lacks the continuing historical perspective Campen has. For these reasons, I have had Campen review the scenario I am presenting. Where he disagrees and I have no better knowledge, I have deferred to his interpretation.

Where we disagree and I believe my construction is correct, I have noted this in the text. In this manner, I believe that I have succeeded in constructing an comprehensive and accurate history of events for this case as possible in terms of the research question.

Method of Analysis

I have employed a critical incidents approach for the analysis of this case in order to give the reader a comprehensive understanding of the case as it unfolded and to help identify the group whose interest's would contain emergent criteria regarding a successful outcome. These emergent criteria, which are presented as shortcomings, could be called "goals" for such an activity.

Critical Incidents methodology has a long history and has been used extensively and effectively to isolate key perspectives of roles, jobs, decisions and activities associated with organizations. More recently and of interest to this research, it has been utilized to gather information about ethics, attitudes, decisions and other topics (Clawson, 1992). The two classic sources on the use of the method are Flanagan (1954) and Campbell et al. (1970). It is reported that the first use of critical incidents was to develop procedures for selection and classification of aircrews in the Aviation Psychology Programme of the United States Air Force in World War II, (Takagi, 1958). In addition, I have used this process in previous research and writing (Bryson, Eden, Ackermann and Finn,1996) from which I have adapted regarding the description of critical incidents methodology.

Critical incidents are events that are particularly consequential to the decisions, actions, or outcomes of an episode or case. Flanagan identifies the process as a technique that "is essentially a procedure for gathering certain important facts concerning behaviour in defined situations." For this research, I have formulated a set of criteria that allowed me to select events within this case that could be identified as critical incidents that had one or more of the following characteristics:

- A turning point or a dramatic change in a stakeholder's behaviour.*
- A particularly memorable episode or distinct piece of action that stood out from the flow, for example, on that was acknowledged by many people as being critical.*
- A "fan" or "junction point" offering multiple or alternative possible choices in which a decision about which choice to make was made deliberately.*
- A point where alternative futures became apparent.*
- A point at which something fundamental happened.*
- A point where a process failure from the perspectives of the actors was obvious.
- A point where a process success from the perspectives of the actors was obvious.
- An event that excluded stakeholders.
- An event where key decisions were made that did not include other stakeholders.
- An event where key decisions were made that did not consider the interests of other stakeholders.
- An event whose results affected stakeholders who were not able to contribute.
- An event that affected the relationships between stakeholders.

(An * connotes characteristic derived from previous research: Bryson, Ackermann, Eden and Finn, 1996)

Using these indicators, a careful review of the events revealed 31 identifiable public critical incidents. These events were then related to the identified stakeholders and their described interest. The four emergent categories comprise the combined interests, behaviour and attitude of the emergent major stakeholder groups in terms of what their interests are. Categorizing into stakeholder groups is appropriate as this process variable is inherent to all four stakeholder approaches utilized to explore alternative outcomes. It also allows for the identification of a "community" perspective, which will be the one which each stakeholder process is compared to. In addition, in terms of further research, the successes and/or failures within stakeholder categories could be evaluated against the identified failures revealed in the case as it developed. The benefits of cataloguing events that have one or more of the above characteristics are several:

- There is an emphasis on multiple observed behaviours and processes.*
- The approach generates rich qualitative data.*
- The incidents are helpful in generating grounded theory, that is, for developing a theoretical approach from the data.*
- The incidents are helpful for highlighting what are likely to be situationally specific aspects of the case.*
- The catalogue of the events helps researchers develop a comprehensive yet specific view of the case.*
- The identification of categories offers a design that can be replicated for further research.
- The method can assist with the discovery of more universal as well as contingent behaviours.*
- The critical incidents method has a proven track record.*

(An * connotes characteristic derived from previous research: Bryson, Ackermann, Eden and Finn, 1996)

I am then able to apply the four stakeholder approaches to the case as presented and extrapolate their effect on the outcome in terms of how it would affect the identified failures (or goals). These results will help to identify the relative strengths and weaknesses of the approaches and give insights to the development of a grounded (substantive) theory of organizations as supported by my stakeholder approach.

Weaknesses of the Method

Despite the relative strengths listed above of utilizing the critical incidents approach as a foundation for grounded research utilizing qualitative data, there are at least two difficulties inherent in its use. First, the process relies to a considerable extent on the subjective impressions of participants, the event recorder and the researcher, rather than an organized, historical record. Participants, recorder and researchers may well have perceptual filters that mislead or blind the researcher regarding what happened and/or how important the event was to the outcome of the case. This type of reporting, if not acknowledged and accounted for, could very well lead to a biassed result. Therefore, I have tried to mitigate this weakness by seeking multiple interpretations of the events through newspapers, interviews and other histories. This is a form of triangulation as remarked upon by Eden and Huxham to help identify, acknowledge and deal with data validity questions relating to differing perspectives by different observers. In addition, the categorizing of multiple events ensures that I am not relying on just one instance to make an observation which enhances validity.

Second, this method generates good qualitative data, but little quantitative, statistically reliable data. This is particularly true for this case as the number of possible variables being considered (four separate stakeholder approaches based upon differing assumptions) would require a much larger sample than was generated by this one case. An interesting development from this thesis would be further application of this process with codification and analysis. Such a study will require that the approach I am developing be applied a number of times with organizations at various stages of cohesion or concentration, which is beyond the scope of this thesis. For example such an analysis could reveal further insights regarding the role of the individual within an organization which has not been tested in this research. Another question is, are there organizational forms that are more or less willing to utilize these process? For example, I found that the teaching hospital association members were experiencing real organizational stress due to the threat to their individual existence by major changes in payment structures, which may have allowed the group to more readily re-examine their organizational boundaries and constituency. Was that stress conducive towards organizational re-think and therefore they were more amenable to my processes? By gaining a better understanding of how organizational "mind sets" are established which makes it difficult for these organizations to comprehend the relationships between the problem, the organization and the solution, researchers and practitioners will discover additional approaches that will allow even more insight into the development of organizational theory.

Given these reservations, I am not claiming at this time that I have developed a formal, grounded theory. Rather, I have embarked on a process that promises to develop into a substantive theory (Glaser and Strauss 1967). My intent then is to generate something beyond a rationally argued idea and to design a process that begins to develop categories and properties that lead to proper integration, measurement and evaluation. Towards that end, I have used the criterion developed by Strauss and Corbin (1990) where they developed seven criterion to follow when developing grounded theory:

1. How was the original sample selected? What grounds?
2. What major categories emerged?
3. What were some of the events, incidents, actions, and so on (as indicators) that pointed to some of these major categories?
4. On the basis of what categories did theoretical sampling proceed?

5. What were some of the hypotheses pertaining to conceptual relations (that is among the categories) and on what grounds were they formulated and tested?

6. Were there instances when hypothesis did not hold up against what was actually seen?

7. How and why was the core category selected? Was this sudden or gradual, difficult or easy? On what grounds were final analytic decisions made?

I have taken these points into consideration as I proceeded with the thesis.

Conclusion

The critical incidents process has been employed to identify stakeholders in terms of the history of the case and their combined interests so that emergent criteria could be generated in terms of results that were less than could be expected from the community perspective. This chapter discussed how the case was developed and then how it will be utilized in chapter twelve.

CHAPTER 12

THE BOSTON CASE

INTRODUCTION

This chapter is designed to give the reader a sufficient understanding of the Boston experience so the four stakeholder processes, which will be applied to this case in chapter thirteen, make sense and the credibility (or rationale) of the stakeholder list used in the analysis is established. In addition, the seven criteria (goals) for the Boston case are discussed, along with the shortcomings of the original experience.

CASE OVERVIEW

This case generally is about the continuing dispute in the United States between the community, the private sector and governmental regulators regarding the question of discrimination and equality of opportunity. Equality of opportunity is one of the founding premisses behind the rationale for governance in this country. It is discussed in the Bill of Rights and several amendments to the Constitution over the years. While there is much debate regarding mandated outcomes such as hiring and firing quotas, there is general agreement over guaranteed equal rights of opportunity. In fact, conservatives, buttressed by free market theorists ascribing to the Chicago School of Economics approach argue that no regulatory action would be necessary if free markets were allowed to prosper as the market would guarantee these fundamental rights around equality of opportunity. Indeed, they refuse to believe that it is possible within the intensely competitive free market, of which the banking industry is an excellent example, that such discriminatory behaviour could exist.

The view taken by other researchers and economists who are identified as taking a liberal approach is that discrimination does exist due to market failures that are readily identifiable throughout many communities in the country. This group agrees that equality of opportunity is fundamental for successful outcomes, but does not believe that markets operating by themselves necessarily operate in a "free" manner and governmental and community oversight and action is necessary in order to redress the errors. So the dialectic is that one side believes that discrimination cannot happen in competitive markets, so whatever research result being observed that appears to be discriminatory is due to some other variable not currently understood. The other side holds that market failures are common and obvious, should be expected and must be redressed.

Within the banking debate, this dialectic describes the crux of an issue that now involves whole philosophical "camps" in this country. These camps had staked this issue in Boston out as the definitive battleground. The question being: Have banks somehow operated in such a manner as to restrict equality of opportunity in minority and low income communities? Can this have happened? If indeed it has, then few would condone the policy and the majority would agree that measures must be taken to remedy the situation. If this is not the case, the industry should be freed from its onerous regulatory burden so it can become even more efficient and successful. The debate then is about how to determine that equality of opportunity has been denied and if so, what measures would remedy this problem. I should note that I use the terms banks and banking in its largest context in this thesis. I define banks and the banking business as any firm that engages in legalized credit cards, deposits and general lending within the community for business, the person and the household (with the exception of pawn brokers).

Within the context of discriminatory activity in Boston, the basic question of discrimination had already been raised to national awareness in terms of whether discrimination could happen in a free, competitive market by past research developments in Atlanta, Georgia and Detroit, Michigan, among others. In essence, the public was ready to consider the possibility that banks do discriminate against whole communities of race and ethnicity. The major difference in the Boston round of this discussion was that a Boston Federal Reserve study had found that evidence that tended to support the position of the community advocates and researchers. This major development, coupled with the hiring of me by the Boston Redevelopment Agency to study the issue of discriminatory banking behaviour, set the stage for a public resolution to the question discussed above. If this answer supported the community perspective, the stage would then shift to explore discussion of the second part of the issue, namely how to redress the problem that has come to the fore. For further erudition I have included as Appendix "A" my published report: Mortgage Lending in Boston's Neighbourhoods 1981-1987 as additional support to the brief description of the conditions and issues facing the City of Boston in 1989-90.

A Short History

The northeastern part of the United States experienced an economic boom period during the mid to late 1980s. This boom created a housing crisis as new found wealth attracted more people and existing populations entered the housing markets. This led to a skyrocketing housing market for current housing, land investment and speculation resulted an acute problem of housing afford ability. The Boston area had the reputation of being ranked the worst of large metropolitan areas in the country in terms of affordability. While the average wage was about $25,000, which was well above the United States average, the price of housing required an income of about $60,000 to purchase the average home, which cost $180,000+. Rental property costs in Boston had also escalated with the average renter investing over $40% of their total income for housing versus the national average of 20-30%. To give some perspective, the home

I own in the Minneapolis, Minnesota area was valued at about $130,000. If this same property was in the Boston area, it would have been valued at about $650,000.

At this same time, the President Reagan's administration had successfully cut back in federal housing administration funding for low income populations, which further reduced the potential for these people to purchase housing. Added to this were the mortgage industry requirements, backed by the housing insurance industry that required that housing related payments not exceed up to 28% of a borrowers income in order to qualify for a home loan.

Within the lower income portions of the city which were largely populated by minorities, things were even worse. Banks in their efforts to pursue maximum return had closed over 40% of the bank branches over ten years in these areas as they opened newer, more profitable ones in the suburbs. At the same time, in the white low income areas, they had targeted as opportunities for gentrification and conversion of rental properties into condominiums (called triple decker conversions). The net effect of these actions was that by 1989, there were over five times as many bank branches open in white neighbourhoods of the same size than in minority neighbourhoods (Hanafin, 1989). Community organizations, various arms and agencies of government and religious organizations had all appealed to the bankers for more commitment. Despite all these pressures, the Boston banking community, led by the Massachusetts Bankers Association (MBA) had consistently held they were doing everything they were supposed to.

In 1987, two major investigative activities regarding the banks' responsibility to the Community were published by newspapers in Atlanta, Georgia and Detroit, Michigan (among others). Both of those studies raised serious questions regarding banks activities in low and moderate income areas that were largely populated by minorities. The Atlanta articles garnered a Pulitzer prize in investigative journalism and the Detroit series won several other awards. These major articles (and several others) raised the public consciousness about these issues to the point there were Congressional hearings and public outrage regarding discriminatory lending activities. I participated as one of the two principal researchers involved in the Atlanta series and the principal researcher for the Detroit series.

To sum up these vectors, Boston banks had operated in a manner that put them in an extremely questionable position regarding their activities from a perspective of community mores and the law at the very same time the question of discrimination had gained the nations attention. And they had done so by rebuffing not only the minority populations the needed the loans, but the very powerful representatives of these communities and other interested parties. It was at this point that I was invited by the Boston Redevelopment Authority to analyse Boston banking activities. The original intent was to use me as a "hired gun" to break the impasse. This put me in a unique position as part of the charge was that I research not only the numbers of loans going to neighbourhoods, but also to identify the actors involved and interview them regarding the research.

What ensued over the next fifteen months was a series of confrontations, negotiations, backroom deals, betrayals, agreements and withdrawals, politics and positioning that finally resulted in a series of agreements that in the end, entirely satisfied no party. In effect, the result was partly negotiated but also was part exhaustion, driven by perceptions that the public was tired of hearing about it. From another perspective, this was an intense negotiation regarding how billions of dollars would be spent, who would have to pay and who would benefit. I will give a brief summary of the activities of the months between my arrival and the subsequent agreements, but first will give a description of the actors involved as comprehending why stakeholder analysis and relations would make no sense otherwise.

Note: The list of stakeholders discussed below was developed from my notes on the case based upon interviews, meetings and conversations with stakeholders. As this is a list developed independent of the critical incidents analysis and it is important to the overall understanding of the events identified in that analysis, it is presented here. Part of the intent of the critical incidents analysis is to test this list.

For the purpose of basic description, the actors can be divided into three categories:

1. Those supporting the banks' perspective.
2. Those supporting the communities perspective.
3. Those who could not declare themselves in either camp due to political or legal considerations, yet had distinct leanings.

It is interesting to note that no one involved in this scenario was truly neutral, but within each category there were varying levels of commitment and capacity to act. One other observation is that almost everyone involved in this whole process were not the actual people who were affected by the discriminatory result of banking activities. Rather, these actors were either representatives of or advocates for those directly affected. In a real sense, these activities were very much about determining the "public good" and what were the various actors responsibilities in providing for it.

Those supporting the banks' perspective

The MBA

This category was by far the best organized as they were able to utilize the Massachusetts Bankers Association (MBA), which was already a well-established forum for bank lobbying and forums. The MBA was connected to other national organizations such as the American Bankers Association (ABA) and were well briefed by banks and lobbyists in other areas such as Atlanta and Detroit who had a lot of experience already. While banks had become intensely competitive over the past ten years, they were also quite used to working with the banking associations when they were faced by a common threat. Their immediate counsel to the Boston Banks was to adopt a pro-active approach to the issue by proclaiming their concern and commitment to solving the problem. They hired an outside consultant who had a history of working with community organizations and had some immediate credibility. They also insisted that all negotiations be handled by the MBA and that no bank break "ranks." The objective was to get out in front of the opposition and therefore dictate involvement and solutions.

The Big Banks

From a banking perspective, in 1989 the City of Boston had many of these large firms operating for profit and incidentally, serving the development and housing needs of the community. The Bank of Boston (BOB) and the Bank of New England are the two largest examples of over 50 banks operating in that market. These two banks had combined deposits of over 13 billion dollars which comprised about 40% of the total deposits held by the top 20 largest banks in the city. With such a large presence in the city, it would seem reasonable that these firms would have a very deep understanding of this market. However, these banks had grown to the point where they were really about managing the managers and do not necessarily have a direct interest. The previous five years had been a time of unprecedented growth, both of housing development and bank agglomeration. The belief within the industry was that individual survival required that a bank become so large as to make it impossible to be acquired by another bank. This radical change in industry behaviour changed the fundamental premise that defined a bank with 80-100 million in deposits was successful and competitive to one which defined success as billions in deposits and was so large that it prevented take over by another.

The result of this "feeding frenzy" was that large banks were actually portfolios of groups of merged banks that had no relationship to one another other than their overall ownership by the larger corporation. The Bank of New England in particular had grown so fast through mergers and acquisitions that it had no inventory of locations for all of their outlets in Boston. Each outlet had a manager who reported to another layer of management, who then reported to the management of the Bank of New England. Many of the banks did not even use the name of the Bank of New England and still did business in their original (pre-acquisition) name. I spent four days following the merger and acquisition record of this bank and found there appeared to be no locational, market sector or any other overall strategy apparent to these acquisitions other than to get bigger. In one instance, they actually owned two banks across the street from each other with different names who were actively competing for customers. I should note that this situation was so egregious that I met with the bank's regulator to raise questions of safety and soundness which led to an intervention by that regulator. Despite the intervention, the Bank of New England folded in 1991 due to investment losses.

In effect, this process meant that each sub-unit of this organization was in charge of its own business, with little responsibility to (other than to show a profit) or control from the parent organization. The Bank of Boston was somewhat better organized, but also had little control of its outlets. Other smaller banks were better organized, but were also engaged in this race to grow by merger or acquisition and were manifesting the same effects. The problem for these organizations (outside huge internal management problems) was that even though these banks had a poor understanding of "who" they were, they had both formal and informal responsibilities in terms of equality of opportunity and result to the community they had chosen to work in. Due to the existing management structures, they could not realistically in terms of time and subsets of the community, dictate outcomes for their own operations, yet at the same time, they were responsible both formally and informally for those outcomes. The assumption was that good business for the bank was good business for the community. And that good business for the bank was measured by size and profit margins.

While the big banks represent one group that would benefit from joint negotiations through the MBA as they would be expected to pay out the lions share of any agreement, they also were the "winners" in the agglomeration wars and had done so due to their well honed competitive abilities. Therefore, they inherently would be the first to act on perceived competitive advantage and would also be prone to break with or end-run the MBA process.

Small Banks

The small banks were the ones who were both caught up in the issue due to their combined actions that had led to discriminatory result and at the same time, were too small to make a difference by themselves. Many of these banks had sought out "niche" market positions that positioned them largely outside of markets in the minority neighbourhoods, which resulted in their contributing to an even more discriminatory result. Some few banks had actually pursued minority neighbourhood opportunities, but were so limited due in size as to appear impotent within those communities.

Some banks were founded by unions, nonprofit developers or a consortium of black bankers (Boston Bank of Commerce). While they resonated with the community perspective, they were also beholden to the larger banks for portfolio services which were a vital component to their survival. And their sphere of relationships clearly was within the banking circles which surely would have punished them if they made a stand for the neighbourhoods (or at least that was their perception).

Those supporting the communities' perspective

City Government

From the governmental sector and within the city of Boston, the management of its housing stock resided in several agencies that had different constituencies and goals which were often conflicting and competing. To name a few, the Boston Redevelopment Authority (BRA), the Public Facilities Department (PFD) which was the established housing authority in Boston, the City Treasurer, City Council, City Housing Inspectors, homeless and social services agencies, the Mayor's office, the Director of Housing, the transit authority and Boston City Schools all had some interest and authority over housing. The three primary agents were the BRA (headed by Stephen Coyle), the Public Facilities Department (PFD), the Director of Housing Peter Dreier and Mayor Flynn. Each had budget authority and were headed by powerful, political people and each had its own goals and priorities that defined their own success, which often resulted in competitive strategies to ensure success over one another. While the Mayor and City Council did have authority over the agencies, the very complexity and size of the governmental organization required autonomy for of the organizations to be successful. As with the private sector, the public sectors top managements job was to manage the managers. Therefore, success for the individual agencies was quantified to numbers of housing and business units developed and maintained in much the same manner bank branches related to the parent units. How this was done was largely up to the agency. During the negotiations with bankers regarding lending programmes in Boston in 1989, the BRA and the Mayor forged an agreement which was openly opposed by the PFD. The PFD wanted to protect certain agreements it had made with individual banks which they considered threatened by the BRA-Mayor agreement. Clearly the PFD's action was due to their goal for the agency which was that they produce housing, rather than some other agents' initiative. Indeed, my interviews with members of the agency revealed from the first that they resented the BRA and the Housing Director's and my intrusion into what they considered their "turf."

State Government

In the 1970s, the Boston and the state of Massachusetts were a battleground for a previous round of concerns regarding banking discriminatory practices (Lukas, 1985). At that time, the state legislature had passed its own version of the Community Reinvestment Act (CRA) that regulated state chartered banks. This act was almost exactly like the national CRA. The state Attorney General's Office was charged with enforcement, but had done little in this area in the past. However, there was a new group of lawyers in the office who were very interested in local developments as well as the Justice Department investigation of banks in Atlanta.

The mayor of Boston was widely viewed as a potential front runner candidate for the upcoming election for governor. In such a position, the mayor would control state finances regarding where they deposited and this could dramatically effect banks. On the other hand, a state gubinatorial race is a very expensive proposition that would not go well if such an explosive issue in Boston was not resolved.

Congress

Due to the national exposure this issue had received over the previous year, the Senate and Housing Banking Committees were both interested in Boston. Congressman Henry Gonzales of Texas as House Banking Chair actually scheduled a hearing in Boston on the problem (this was the first hearing scheduled outside of Washington DC by this committee). However, the lead was taken by Congressman Joe Kennedy as the Boston area was in his district and he had both a real interest in the issue as well as a constituent one.

Church

The church presence, which is a common on across the communities that have taken this issue on was largely represented by Reverend Charles Stith, head a national group called the Organization for a New Equality (ONE). This was an interesting development as Stith really had no local base within the community, yet acted as a powerful spokesperson for needs of minorities. In addition, he also attempted to "broker" between the community and the banks. He suddenly appeared during the early stages of the negotiations, claiming his position and interest and thereby filling the religious vacuum left by the Catholic church.

Community Organizations

The community organizations were perhaps the critical factor as far as there was a successful outcome (from the community's perspective) to this case. The various groups continually brought pressure to bear on both the banks and government regarding the importance of the issue and instance on a positive resolution. Through picketing, "sit-ins," news releases and other actions that were clearly confrontational and possibly illegal, they forged public opinion so persuasively as to make it impossible for the issue to be buried as the bankers so badly wanted.

Community Investment Coalition (CIC) was clearly the major community actor during the protracted negotiations. This was originally a group of six community organizations that specifically organized to represent the interests of the minority community. The major actor within this group was Lew Finfer, who had a very close relationship with Peter Dreier. These were perhaps the two people most important people whose work behind the scenes for the community perspective contributed to a relatively positive outcome for the community in this case. While Finfer clearly was a leader, he considered himself first to be an organizer whose job was to help community organizations achieve their purpose. Therefore, Finfer never stood separately from the CIC position and served more as a connection between certain entities in the government and the community organizations. The CIC was clearly the leading community organization that led the way in terms of making public demands, confronting bank behavior through public actions and not folding when pressures were brought to bear by the banks to exclude them from the process.

The Greater Roxbury Neighbourhood Authority was the leading single neighbourhood association directly involved in the case. The also participated in actions against the bank on behalf of the minority communities of which Roxbury was perhaps the worst off in terms of discriminatory effect.

One other neighbourhood organization was active called the Dudley Street Neighbourhood Authority, but they acted more as a community development corporations, and are discussed below.

Statewide Organizations

The Massachusetts Affordable Housing Alliance (MAHA) was a statewide umbrella coalition of groups working to increase funding for affordable housing. Their interest was in statewide change, but they saw the opportunity to define that change for the whole state in the agreements worked out in Boston.

The Massachusetts Community Action Program was an association of agencies throughout the state who worked for years on issues of poverty and banking. In 1988, this group was one of the first to raise the issue of banking discrimination in this latest round of public scrutiny.

Community Development Corporations (CDCs)

The Massachusetts Association of Community Development Corporations was an umbrella organization of over forty developers statewide. Their major interest was in the development of minority housing, largely by tracts and large buildings. My meetings with this group revealed ambivalence by the membership regarding their ability to act on this issue. On one hand their very existence was dedicated to improving low income and minority housing, but they were largely reliant upon development loans from the very banks in question which several members told me they felt would be threatened if they acted.

One CDC that was active was the Dudley Street Neighbourhood Initiative. This group actually was a neighbourhood advocacy group that had developed a CDC to help address problems in their community. Perhaps this grounding allowed this CDC to be more aggressive in pushing their case.

Those who could not declare themselves in either camp due to political or legal considerations, yet had distinct leanings

Newspapers

Both major newspapers in Boston took a special interest in this issue. While there certainly was news potential in this case, it was apparent to everyone that the papers choose to maintain a vigilance on this issue that was uncommon. Perhaps this had to do with the national attention this issue had arisen to, but I would suggest also that there were several reporters and editors involved that had a distinct leaning toward the community perspective as was demonstrated in several editorials in favour of the community perspective. I do know that bankers complained about this perceived bias several times to no avail and that reporters were ever ready to cover events as they erupted. At the same time, the business section of the papers tended to support the banking perspective. I have not perceived however biassed approach to reporting. Rather the bias manifested in continued coverage of the issue.

Given the ability of the newspapers to act as a public forum, it is also appropriate that it be viewed as a powerful stakeholder that everyone wanted supporting them. To a certain extent this did happen as the front and editorial pages gave credence to the community, while the business pages supported the banks and regulators. So, it could be said that the newspapers were in all the camps.

Federal Reserve

The general public perceives that the Federal Reserve is the regulator of banking in the country. This is a great misconception as this agency is responsible for regulating only a small portion of 15,000 banks in existence in 1989. From the perspective of this case, their responsibilities regarding research and coordination of banking processes is more important. Their research charge is largely determined individually by each of the 12 regional Reserve institutions, but is targeted toward issues of importance and interest to the general banking community. The presidents of each reserve bank are elected by their respective member banks and it is common for officers of the reserve bank to be recruited directly from private banks. This is so prevalent that I coined the term "golden corridor" in a speech to the annual meeting of Chief Financial Officers organized by the American Banking Association to identify the relationship as being similar to the well-known relationship between the United States military and defence contractors. Given this perspective, it follows that while the Reserve bank has a public charge which makes it a regulatory agency, it is heavily influenced and perhaps biassed toward the industry. This description is validated by the behaviour of Boston Federal Reserve throughout this case as they sought to first hide findings deleterious to the banks and then embarked on a course to debunk the report by engaging in further research. Fortunately for the community (and of much trouble to the Reserve bank) the very public research endeavours undertaken both by the bank and myself led to an even stronger case against the discriminatory behaviour of Boston banks.

The president of the Boston Reserve Bank was Richard Syron. He chose to take a high profile approach to the issue (once it has public) and was thereby forced to position the bank in terms of its relations with local banks at a much more distant perspective than was normally expected by bankers. This made him an actor in this case somewhat separate from the Reserve bank.

Table 12.1 SUMMARY LIST OF STAKEHOLDERS

Supporting Banks	**Supporting Community**	**Neutral?**
-Massachusetts Bankers -Association (MBA)	-Boston Redevelopment Authority (BRA), headed by Stephen Coyle	*-Newspapers*
-The Big Banks	-Public Facilities Department (PFD)	-Federal Reserve Bank of Boston
- Bank of Boston	-City Treasurer	
- Bank of New England	-City Council	-Richard Syron
- Boston Bank of Commerce	-Homeless and Social Services Agencies	-Newspapers
-Newspapers	-Mayor's office: Mayor Flynn	
	-Director of Housing, Peter Dreier	
	-Attorney General's Office	
	-Mayor of Boston	
	-Senate and Housing Banking Committees	
	-Congressman Joe Kennedy	
	-Newspapers	
	-Church: Reverend Charles Stith	
	-Community Investment Coalition (CIC)	
	-Greater Roxbury Neighbourhood Authority	
	-Massachusetts Affordable Housing Alliance (MAHA)	
	-Massachusetts Community Action Programme	
	-Massachusetts Association of Community Development Corporations (CDC)	
	-Dudley Street Neighbourhood Initiative (CDC)	

Critical Incidents of Interactions Between Stakeholders in the Case

Listed below are the thirty-one critical incidents as they developed in the case. Following each critical incident are the stakeholders involved.

1. Bankers choose to not make an extra effort to address issues of discrimination in Boston (1987-88).

SUPPORTING BANKS	SUPPORTING COMMUNITY	NEUTRAL
-Massachusetts Bankers - Association (MBA) -*The Big Banks* - Bank of Boston - Bank of New England - Boston Bank of Commerce	-Boston Redevelopment Authority (BRA), headed by Stephen Coyle -Public Facilities Department (PFD) -Homeless and Social Services Agencies -Director of Housing, Peter Dreier -*Newspapers* -*Church*: Reverend Charles -Greater Roxbury Neighbourhoods Authority -Massachusetts Affordable Housing Alliance (MAHA) -Massachusetts Community Action Programme -Massachusetts Association of Community Development Corporations (CDC) -Dudley Street Neighbourhood Initiative (CDC)	

2. Federal Reserve decides not to publish (bury) a housing analysis that suggests discriminatory activity by Boston Banks (1988).

SUPPORTING BANKS	SUPPORTING COMMUNITY	NEUTRAL
		-Federal Reserve Bank of Boston -Richard Syron

3. BRA Director decides to investigate banks performance- very publically hires Finn.

SUPPORTING BANKS	SUPPORTING COMMUNITY	NEUTRAL
	-Boston Redevelopment Authority (BRA), headed by Stephen Coyle -City Council -Mayor's office: Mayor Flynn -Director of Housing, Peter Dreier *-Newspapers*	

4. BRA, Dreier and Finn leak Federal Reserve Study to press, which is subsequently published by the Boston Globe. (Campen did not know I was involved)

SUPPORTING BANKS	SUPPORTING COMMUNITY	NEUTRAL
	-Boston Redevelopment Authority (BRA), headed by Stephen Coyle -Director of Housing, Peter Dreier *-Newspapers*	-Federal Reserve Bank of Boston -Richard Syron -Newspapers

5. BRA board stops and then re-starts study (autonomously) after press reports of the Boston Federal Reserve study.

SUPPORTING BANKS	SUPPORTING COMMUNITY	NEUTRAL
-Massachusetts Bankers - Association (MBA) *-Newspapers*	-Boston Redevelopment Authority (BRA), headed by Stephen Coyle -City Council -Mayor's office: Mayor Flynn -Director of Housing, Peter Dreier *-Newspapers*	-Richard Syron -Newspapers

6. Boston Federal Reserve decides to attack (Syron is spokesperson) the veracity of their own housing analysis report and does another study that will compete with Finn's.

SUPPORTING BANKS	**SUPPORTING COMMUNITY**	**NEUTRAL**
		-Federal Reserve Bank of Boston -Richard Syron -Newspapers

7. Community Investment Coalition (CIC) forms that includes community groups and major CDCs.

SUPPORTING BANKS	**SUPPORTING COMMUNITY**	**NEUTRAL**
	-Community Investment Coalition (CIC) -Greater Roxbury Neighbourhood Authority -Massachusetts Affordable Housing Alliance (MAHA) -Massachusetts Community Action Programme -Massachusetts Association of Community Development Corporations (CDC) -Dudley Street Neighbourhood Initiative (CDC) *-Newspapers*	

8. Massachusetts Bankers Association hires consultant who advocates a strategy of taking possession of the process and defining the solution rather than stonewalling.

SUPPORTING BANKS	**SUPPORTING COMMUNITY**	**NEUTRAL**
-Massachusetts Bankers - Association (MBA) *-The Big Banks* - Bank of Boston - Bank of New England - Boston Bank of Commerce *-Newspapers*		

9. Massachusetts Bankers Association forges agreement among banks to be only forum of negotiation for banks.

SUPPORTING BANKS	**SUPPORTING COMMUNITY**	**NEUTRAL**
-Massachusetts Bankers - Association (MBA) *-The Big Banks* - Bank of Boston - Bank of New England - Boston Bank of Commerce *-Newspapers*		-Richard Syron -Newspapers

10. MBA tries to attack BRA/Finn study and get the Boston Federal Reserve to make their study take a less discriminatory investigation approach. Fed holds hearings (Campen).

SUPPORTING BANKS	**SUPPORTING COMMUNITY**	**NEUTRAL**
-Massachusetts Bankers - Association (MBA) *-Newspapers*	-Boston Redevelopment Authority (BRA), headed by Stephen Coyle -City Council -Mayor's office: Mayor Flynn -Director of Housing, Peter Dreier *-Church*: Reverend Charles Stith -Community Investment Coalition (CIC) *-Newspapers*	-Federal Reserve Bank of Boston -Richard Syron -Newspapers

11. MACDC publically goes its own way from CIC and then decides to stick with the CIC.

SUPPORTING BANKS	SUPPORTING COMMUNITY	NEUTRAL
-Massachusetts Bankers - Association (MBA) *-The Big Banks* - Bank of Boston - Bank of New England - Boston Bank of Commerce	-Director of Housing, Peter Dreier -Community Investment Coalition (CIC) -Greater Roxbury Neighbourhood Authority -Massachusetts Affordable Housing Alliance (MAHA) -Massachusetts Community Action Programme -Massachusetts Association of Community Development Corporations (CDC) -Dudley Street Neighbourhood Initiative (CDC) *-Newspapers*	

12. Individual banks begin to negotiate private deals as they perceive advantage

SUPPORTING BANKS	SUPPORTING COMMUNITY	NEUTRAL
-The Big Banks - Bank of Boston - Bank of New England - Boston Bank of Commerce	-Boston Redevelopment Authority (BRA), headed by Stephen Coyle -Public Facilities Department (PFD) -Director of Housing, Peter Dreier -Community Investment Coalition (CIC) -Greater Roxbury Neighbourhood Authority -Dudley Street Neighbourhood Initiative (CDC) *-Newspapers*	

13. Individual community actors make private agreements as they perceive advantage. CIC issues its own findings, plan and demands (Campen).

<u>**SUPPORTING BANKS**</u>	<u>**SUPPORTING COMMUNITY**</u>	<u>**NEUTRAL**</u>
-The Big Banks - Bank of Boston - Bank of New England - Boston Bank of Commerce *-Newspapers*	-Director of Housing, Peter Dreier -Community Investment Coalition (CIC) -Greater Roxbury Neighbourhood Authority -Massachusetts Affordable Housing Alliance (MAHA) -Massachusetts Community Action Programme -Massachusetts Association of Community Development Corporations (CDC) -Dudley Street Neighbourhood Initiative (CDC) *-Newspapers*	

14. City departments act independently and competitively.

<u>**SUPPORTING BANKS**</u>	<u>**SUPPORTING COMMUNITY**</u>	<u>**NEUTRAL**</u>
-The Big Banks - Bank of Boston - Bank of New England *-Newspapers*	-Boston Redevelopment Authority (BRA), headed by Stephen Coyle -Public Facilities Department (PFD) -Director of Housing, Peter Dreier -Newspapers	

15. City Council begins to explore options to discover and punish discriminatory bank behaviour and results.

SUPPORTING BANKS	SUPPORTING COMMUNITY	NEUTRAL
-Massachusetts Bankers - Association (MBA) *-The Big Banks* - Bank of Boston - Bank of New England *-Newspapers*	-City Council -Mayor's office: Mayor Flynn -Director of Housing, Peter Dreier -Community Investment Coalition (CIC) -Greater Roxbury Neighbourhood Authority -Dudley Street Neighbourhood Initiative (CDC) *-Newspapers*	

16. Reverend Charles Stith declares the religious moral ground and becomes a mediator.

SUPPORTING BANKS	SUPPORTING COMMUNITY	NEUTRAL
-Massachusetts Bankers - Association (MBA) *-Newspapers*	-*Church*: Reverend Charles Stith *-Newspapers*	

17. Boston Federal Reserve releases its study that supports the findings of the previous study (banks have ample notice of findings beforehand but do not publically prepare for it).

SUPPORTING BANKS	SUPPORTING COMMUNITY	NEUTRAL
-Massachusetts Bankers - Association (MBA) *-The Big Banks* - Bank of Boston - Bank of New England - Boston Bank of Commerce *-Newspapers*	-*Church*: Reverend Charles Stith *-Newspapers*	-Federal Reserve Bank of Boston -Richard Syron -Newspapers

18. MBA decides to exclude CIC and other organizations perceived to be too radical

SUPPORTING BANKS	**SUPPORTING COMMUNITY**	**NEUTRAL**
-Massachusetts Bankers -Association (MBA) *-The Big Banks* - Bank of Boston - Bank of New England *-Newspapers*	-Community Investment Coalition (CIC) -Greater Roxbury Neighbourhood Authority -Dudley Street Neighbourhood Initiative (CDC) *-Newspapers*	

19. MBA embarks on selective task force discussions that are both informative and confrontational (Finn).

SUPPORTING BANKS	**SUPPORTING COMMUNITY**	**NEUTRAL**
-Massachusetts Bankers -Association (MBA) *-The Big Banks* - Bank of Boston - Bank of New England - Boston Bank of Commerce *-Newspapers*	-Boston Redevelopment Authority (BRA), headed by Stephen Coyle -Director of Housing, Peter Dreier -*Church*: Reverend Charles Stith -Massachusetts Community Action Programme *-Newspapers*	

20. Mayor unilaterally creates a linked deposit programme and a city banking commission, despite the fact the City Council was already working on these issues.

SUPPORTING BANKS	**SUPPORTING COMMUNITY**	**NEUTRAL**
	-Boston Redevelopment Authority (BRA), headed by Stephen Coyle -City Treasurer -City Council -Mayor's office: Mayor Flynn -Director of Housing, Peter Dreier *-Newspapers*	

21. Various community groups begin filing CRA protests against individual banks, acting outside the MBA negotiation process.

<u>**SUPPORTING BANKS**</u>	<u>**SUPPORTING COMMUNITY**</u>	<u>**NEUTRAL**</u>
-*The Big Banks* -*Newspapers*	-Community Investment Coalition (CIC) -Greater Roxbury Neighbourhood Authority -Massachusetts Affordable Housing Alliance (MAHA) -*Newspapers*	-Federal Reserve Bank of Boston -*Newspapers*

22. The MBA task forces miss their reporting deadlines and individual banks break ranks, following leadership of Driscoll (president of Bank of New England), begin to deal with CIC.

<u>**SUPPORTING BANKS**</u>	<u>**SUPPORTING COMMUNITY**</u>	<u>**NEUTRAL**</u>
-Massachusetts Bankers - Association (MBA) -*The Big Banks* - Bank of Boston - Bank of New England -*Newspapers*	-Community Investment Coalition (CIC) -Greater Roxbury Neighbourhood Authority -Massachusetts Affordable Housing Alliance (MAHA) -Dudley Street Neighbourhood Initiative (CDC) -*Newspapers*	

23. Congress holds high profile hearings and State Attorney General's office begins its own investigation.

SUPPORTING BANKS	SUPPORTING COMMUNITY	NEUTRAL
-Massachusetts Bankers - Association (MBA) *-Newspapers*	-Director of Housing, Peter Dreier -Attorney General's Office -Senate and Housing Banking Committees -Congressman Joe Kennedy *-Church*: Reverend Charles Stith -Community Investment Coalition (CIC) -Greater Roxbury Neighbourhood Authority -Massachusetts Affordable Housing Alliance (MAHA) -Dudley Street Neighbourhood Initiative (CDC) *-Newspapers*	-Richard Syron -Newspapers

24. MBA report is not accepted by most community groups, despite Stith's involvement as the high profile mediator.

SUPPORTING BANKS	SUPPORTING COMMUNITY	NEUTRAL
-Massachusetts Bankers - Association (MBA) *-Newspapers*	-Director of Housing, Peter Dreier *-Church*: Reverend Charles Stith -Community Investment Coalition (CIC) -Greater Roxbury Neighbourhood Authority -Massachusetts Affordable Housing Alliance (MAHA) *-Newspapers*	

25. BRA releases Finn's analysis that blasts banks and gets a lot of press. MBA process self destructs. BRA, Dreier and Mayor begin intense negotiations with big banks.

SUPPORTING BANKS	**SUPPORTING COMMUNITY**	**NEUTRAL**
-Massachusetts Bankers - Association (MBA) *-Newspapers*	-Boston Redevelopment Authority (BRA), headed by Stephen Coyle -City Council -Mayor's office: Mayor Flynn -Director of Housing, Peter Dreier -Community Investment Coalition (CIC) -Greater Roxbury Neighbourhood Authority -Massachusetts Affordable Housing Alliance (MAHA) *-Newspapers*	-Richard Syron -Newspapers

26. Public Facilities Department torpedoes Mayor, BRA and Dreier's deal with banks

SUPPORTING BANKS	**SUPPORTING COMMUNITY**	**NEUTRAL**
-The Big Banks - Bank of Boston - Bank of New England *-Newspapers*	-Boston Redevelopment Authority (BRA), headed by Stephen Coyle -Public Facilities Department (PFD) -Mayor's office: Mayor Flynn -Director of Housing, Peter Dreier *-Newspapers*	

27. Community organizations publically squabble about what they want.

SUPPORTING BANKS	SUPPORTING COMMUNITY	NEUTRAL
	-*Church*: Reverend Charles Stith -Community Investment Coalition (CIC) -Greater Roxbury Neighbourhood Authority -Massachusetts Affordable Housing Alliance (MAHA)-Massachusetts Community Action Programme -Massachusetts Association of Community Development Corporations (CDC) -Dudley Street Neighbourhood Initiative (CDC) -*Newspapers*	

28. Charles Stuart murders wife, says black man did it, is found out and suicides, all in a very public manner. The backlash by minorities against the abusive investigation by white police adds to the growing public perception of discrimination (Over 3 months).

SUPPORTING BANKS	SUPPORTING COMMUNITY	NEUTRAL
-*Newspapers*	-Mayor's office: Mayor Flynn -*Newspapers* -*Church*: Reverend Charles Stith -Community Investment Coalition (CIC) -Greater Roxbury Neighbourhood Authority -Dudley Street Neighbourhood Initiative (CDC) -*Newspapers*	

29. Big banks, Mayor, CIC and BRA announce a deal.

SUPPORTING BANKS	SUPPORTING COMMUNITY	NEUTRAL
-The Big Banks - Bank of Boston - Bank of New England *-Newspapers*	-Boston Redevelopment Authority (BRA), headed by Stephen Coyle -Mayor's office: Mayor Flynn -Director of Housing, Peter Dreier -Community Investment Coalition (CIC) -Greater Roxbury Neighbourhood Authority -Massachusetts Affordable Housing Alliance (MAHA) -Dudley Street Neighbourhood Initiative (CDC) *-Newspapers*	

30. MBA announces their programme, not acknowledging most community advocates. The programme does not detail dollar commitments by individual banks and multiplies some dollar commitments to an inflated total.

SUPPORTING BANKS	SUPPORTING COMMUNITY	NEUTRAL
-Massachusetts Bankers - Association (MBA) *-The Big Banks* - Bank of Boston - Bank of New England *-Newspapers*	-Boston Redevelopment Authority (BRA), headed by Stephen Coyle -Mayor's office: Mayor Flynn -Director of Housing, Peter Dreier *-Church*: Reverend Charles Stith *-Newspapers*	

31. CIC announces individual series of agreements at a public celebration with the representatives of the city's ten largest banks.

SUPPORTING BANKS	SUPPORTING COMMUNITY	NEUTRAL
-Massachusetts Bankers - Association (MBA) *-The Big Banks* - Bank of Boston - Bank of New England *-Newspapers*	-Mayor's office: Mayor Flynn -Director of Housing, Peter Dreier *-Church*: Reverend Charles Stith -Community Investment Coalition (CIC) -Greater Roxbury Neighbourhood Authority -Massachusetts Affordable Housing Alliance (MAHA) -Dudley Street Neighbourhood Initiative (CDC) *-Newspapers*	

Upon closer examination of the groups once they are listed and identified within the critical incidents, it becomes apparent that there are two changes that should be made. The first is to recognize the very different authorizations between the governmental and community based organizations. Community organizations were excluded from several incidents where government entities were allowed and the governmental groups clearly were not able to participate in the public demonstrations and actions community organizations partook in. Therefore, we have subset of governmental agencies supporting the community perspective and Community organizations supporting the community perspective.

It is also apparent that several organizations do not manifest themselves in the critical incidents analysis. These are the Homeless and Social Services Agencies and the newspapers. While the Homeless and Social Services Agencies were clearly invested in the outcome, they did not participate in any significant manner to the case. Another such organization that did not manifest itself was the Catholic church which is a large political force in the Boston area. This frankly was a very puzzling development as the Catholic church was quite active in other communities on this issue (Campen also has no information on this). I have made several inquiries regarding their "no show" but have had no good answer. As I stated above, this left a vacuum that was filled by the Reverend Stith.

The newspapers were originally considered a stakeholder due to their active interest that appeared to have a bias both for and against the community perspective. In fact, they became a forum for information and debate used by all parties as they tried to establish their perspective as the dominant one. So the choice was to put the newspapers in each category or eliminate them as a stakeholder. I chose the later.

Therefore, the final grouping of stakeholders, based upon their activities as delineated by the critical incidents, has three categories of stakeholders opposed to the community perspective and those members supposedly neutral.

The Results of a Year's confrontation and negotiation

The result of the process contains elements of community success and failure. When the results of this process are compared with the outcomes from similar events in Atlanta, Georgia for example, the Boston result was much more successful from the community perspective. The public debate regarding the banking industries responsibility to the community was significantly enhanced in terms of validity and attention and the national debate of whether banks do discriminate was answered in the affirmative. There were ancillary and spinoff agreements in other communities and at the statewide level in Massachusetts. In addition, community organizations were able to further establish themselves as bonafide stakeholders who have to be taken into account by government, regulators and the banking industry. Yet, from the community perspective as it pertains to Boston, within each of seven major outcomes of the process (representing the communities combined aspirations) there were shortcomings that clearly did not live up to even the most pessimistic predictions given by parties after the various agreements had been announced. The outcomes listed below were derived from two separate process and were then checked against a set of preferred outcomes based upon a larger context of several community investigations. First is from my interview and meeting notes generated during my participation as an investigator and analyst (see Appendix A). Second is from a review of the findings Campen has detailed. The comparative piece is a set of outcome criteria I generated prior to this analysis, based upon my experience as an acknowledged community development expert in this area (Appendix D).

Note: Identifying oneself as an expert in a particular area is an ambitious claim, which must be supported. I hold that status in this area for three reasons. First is my wide experience as a researcher, which is probably best demonstrated by my being identified as the principal researcher in three of the nine most significant banking discrimination investigations in the 1980 as detailed in *From Redlining to Reinvestment: Community Responses to Urban Disinvestment* (Squires 1992). This book is considered to be one of the major documentary works in this area. Second is my being called on to testify before Congress as an expert regarding the Atlanta Journal and Constitution newspaper series for which a colleague and I did the research (this also was one of these investigations in the book) won a "Pulitzer Prize." Third is my consulting employment as an expert witness in legal challenges to the Federal Reserve regarding bank consolidations. I have participated in and advised organizations across the United States regarding the community lending behaviour of financial institutions and what outcomes could be expected. In one particular instance, I advised the United States Department of Justice regarding their landmark prosecution of Decatur Federal Savings and Loan.

These Criteria are:

Table 12.1 Criteria For a Successful Outcome (with shorcomings)

1. An Identified Funding Commitment

   The debate over bank's monetary commitments due to issues of multiple counting of commitments to various programmes; counting the same capital every time it is cycled through the programme as additional investment; and claims of ownership of programmes by competing community organizations made it extremely difficult to develop a credible tally of the actual dollars committed. The eventual result was that no one was really able to evaluate whether banks had honoured their commitment. The MBA had claimed that the tally for all programmes over five years would amount to over one billion dollars, while community organizations set the number at about 400 million. The actual money invested in the first year (which was supposed to be the time of highest investment) was about 47 million, which was less than one-half of what the community organizations expected. Much of this was due to the MBA's almost total failure to live up to their commitments. The MBA it should be noted had no money itself and no power to assess individual banks. Therefore, this actor was perhaps least able of all parties involved to offer such a guarantee.

2. An Enforceable Agreement(s)

Due to the multiple agreements between various organizations, the ability for any one part of a particular agreement to be enforced was very limited. This essentially meant that no performance failure by the banks could be construed as a failure of the agreement(s). For example, of the nine full service bank branches that were to be established in minority neighbourhoods, only four were set up and few partial service (ATMs) were established. A particularly frustrating development was that one of the nine promised branch was to be established by a bank that had actually failed before the agreement was announced!

3. A Measurable Change In Banking Results

Subsequent analysis of individual banks lending performance by the Treasurers Office and the Boston Federal Reserve regarding lending performance in minority neighbourhoods found little change that can be directly attributed to the agreement.

4. A Well Defined Bank Commitment

The commitment by banks to the Massachusetts Housing Investment Corporation (which was created to by the MBA agreement) was actually funded by about one-third of the promised 100 million dollars. The most important objective of MHIC was the establishment of standardized market process as a conduit for construction funding and this was never realized.

5. A Designated Community Authority

While there was initial agreement regarding the development of an agreed upon procedure and format for reporting of lending and banking operations within minority neighbourhoods, this objective was never attained. The City has continued to perform its own analysis through the Treasurers Office. However, this agencies power is limited to determining which banks will be awarded the ability to act as a city depository. Therefore, there is no ongoing organization established to determine whether bankers have lived up to their promises.

6. A Recognized Community Public Voice

The organizations acting on behalf of the minority were not able to coalesce into a unified power and voice for those communities. It is acknowledged by most observers of actions of this sort that no single party has the capacity to raise the issue to the public attention it requires, negotiate and then enforce the agreement over the long term (Campen, Squires, 1992). This failure means that there is no recognized authority acting in the communities interest to offer a valid opinion regarding the actions of other parties in the agreement. The MBA has acted in this manner for the banks and has continued to declare success from their perspective. Therefore, this is the interpretation accepted by the public as there is no valid party to refute it, given the failure to develop the oversight organization to evaluate performance such as the ones discussed above. The BRA attempted to become that voice at the onset, but was not able to do so.

7. A Timely Outcome

This case unfolded over 12-15 months, with some programmes that would not go into effect for some time after that, which was far too long for any issue to hold the public interest. Several people within the city and community discussed their fear with me during interviews that the situation had gone on for so long and had become so fragmented that they felt their ability to act was eroded. Peter Dreier in particular was quite concerned about this. Indeed, if it had not been for the fortuitous (in this case an unfortunate, macabre, but accurate description) publicity regarding the Stuart murder and subsequent suicide, it is entirely possible that negotiations would have led to nothing as this event refocused a drifting public interest. The Latin term: carpe diem, which translates to "seize the day" is an apt expression for cases such as these debates about the public good.

The question then, is what could the BRA have done differently in terms of the four stakeholder approaches to effect a more successful outcome? An outcome that would have the potential to increase that success measured against the seven shortcomings listed above.

Conclusion

This chapter has laid out the Boston case in terms of the significant activities (critical incidents) taken by the people and organizations involved (stakeholders). This chronicle and the stakeholders involved will allow the reader to follow the extrapolations developed from the applications of the four stakeholder processes in chapter thirteen. In addition, the seven criteria for evaluating the relative success of the four approaches in terms of the original experience are discussed.

CHAPTER 13

COMPARATIVE EVALUATION OF THE FOUR APPROACHES IN TERMS OF THE BOSTON CASE

Introduction

This chapter is intended as a comparative evaluation of the four approaches presented in this thesis. Each approach is evaluated, based upon the given information from the presented case histories and the critical incidents analysis. Each approach is then evaluated against the seven criteria (discussed in chapter 12 and listed in abbreviated form below) for a successful outcome derived from the critical incidents approach, interviews with participants and Jim Campen. These evaluations are developed throughout the chapter as a discussion at the end of each approach evaluation..

Comparative analysis method

This is a comparative analysis of the four stakeholder approaches in terms of outcomes delineated for the Boston case in chapter twelve. The question then, is what could the Boston Redevelopment Authority have done differently if each of the four stakeholder approaches had been used to effect a more successful outcome? An outcome that would have the potential to increase that success measured against the seven shortcomings identified and developed in chapter 12 (an abbreviated form is listed below). Each approach will be applied and the extrapolated outcome compared against the criteria and finally the results will be compared.

Table 13.1 Criteria for a successful outcome in Boston

Criteria:

1. An identified funding commitment (what funding are coming from whom?)
2. An enforceable agreement (what are the assurances that the agreement will be carried out?)
3. A measurable change in banking results (did the community benefit from this approach?)
4. A well defined bank commitment (are there explicit commitments from the banks?)
5. A designated community authority (is there an acknowledged group recognized by all parties who can and will evaluate the commitments made?)
6. A recognized community public voice (is there a acknowledged group recognized by all parties who can speak for the community itself and will establish a standard of operation?)
7. A timely outcome (does the approach contribute to a timely outcome?)

These criteria will be compared in a table with two relative scorings in terms of how the stakeholder approach faired compared to the original outcome. The scorings are between one and nine, with the score of "5" identifying the success of the actual outcome which has been subjected to my scoring method. The scorings represent:

Table 13.2 Scoring

Score	Score Descriptor
1-	-approach would result in a much worse outcome
3-	-approach would lessen potentials for a successful outcome
5-	-approach would have no different outcome (or no discernable effect)
7-	-approach would improve potentials for a more successful outcome

9 -approach would tend to ensure a more successful outcome

(numbers 2,4,6,8 are used to show variance from the scores above)

The scoring has also been summarized as a point total that infers a higher (or lower) potential for an overall successful outcome in comparison to the original. For the first score, no weight has been given to any of the seven criteria as it appears that each is a critical component to both the short and long term success of the endeavour. However, in the long term, the criteria are somewhat inter-related. The scoring has been broken into short term and long term, with the long term score giving a more sophisticated answer. The developed process is somewhat complex as the attempt is to gather both the importance of the individual criteria and to also understand their inter-relatedness. In order to do so, it is best to first look at a map showing how these criteria inter-relate (figure 13.1).

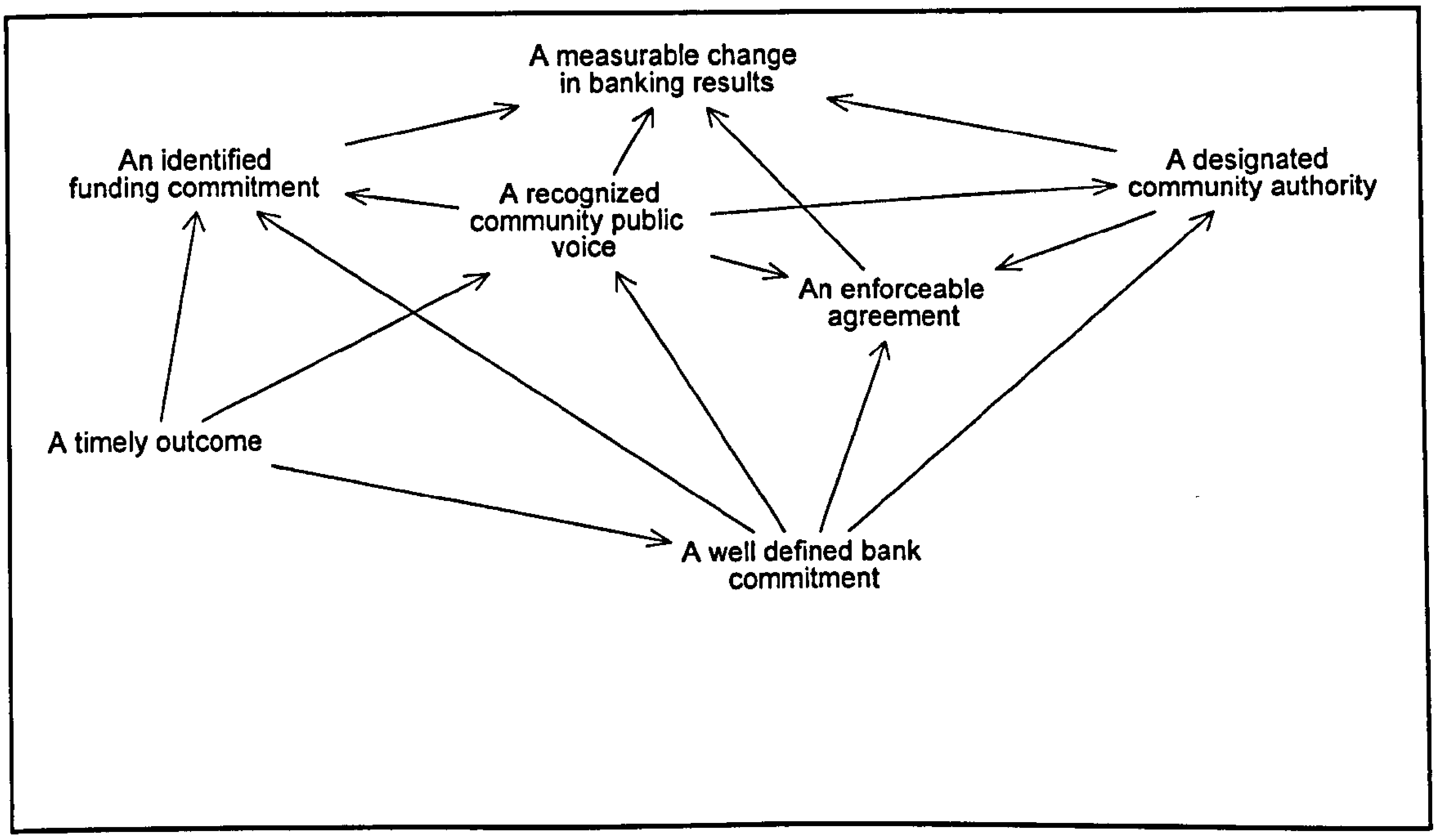


Figure 13.1 Boston Criteria / Goal Map

As can be seen from figure 13.1, certain criteria are supportive of others in terms of the long term ability for any to be successful. For example, without a timely outcome to the process, the question that an identified funding commitment, a recognizable community voice or a well-defined bank commitment will happen becomes somewhat questionable. It also can be seen that the top of this map, which is a measurable change in banking results depends somewhat on the outcomes of all the other criteria. In order to represent this combination of independence, yet inter-relatedness, I have employed a formula that gives each criteria its own ranking plus an composite totals of the other criteria that support it, averaged by the number of criteria used. In order to normalize the data, I have employed a fraction of the score for the criteria over nine, which is the total possible score. This results in a formula for each criteria that aggregates. Below are the formulas for each criteria based upon the above map. In order to portray a more tidy formula, each criteria is assigned a variable and the sum of the variable is represented by {}brackets.

Table 13.3 Formula for calculating long term results

CRITERIA	VARIABLE	FORMULA
A Timely Outcome	A	A/9= {A}
A Well Defined Bank Commitment	B	((B/9)+{A})/2= {B}
An Identified Funding Commitment	C	((C/9)+{A}+{B}+{D})/4= {C}
A Recognized Community Public Voice	D	((D/9)+{B}+{A})/3= {D}
An Enforceable Agreement	E	((E/9)+{D}+{B}+{F})/4= {E}
A Designated Community Authority	F	((F/9)+{B}+{D})/3= {F}
A Measurable Change in Banking Results	G	((G/9)+{C}+{D}+{E}+{F})/5= TOTAL

Note: The answer for the formula for a measurable change in banking results gives the aggregate total for this process, which is placed in the scoring table as the second number. For example the scoring total for the Original experience would be 35/ .5556, with the second number representing the aggregate total.

Note: This map detailing the inter-relatedness of the goals in this exercise was produced previous to and not as a consequence of the weighting system. An observation I have derived from my research to date is that many (or most of the) goals within an organization are inter-related (Bryson, Ackermann, Eden and Finn 1996). Therefore, certain goals must be addressed in order that others are accomplished. For example, in order for an organization to reach its highest goal (Goal: A), it must also address other, less important goals (Goals: B, C, D). And in order to address these goals, the organization must address an even less important goal (Goal: E). Given these hierarchies appear to exist, the question that should be considered by the organization is: Isn't Goal: D the most important goal in terms of the strategies and actions that should be addressed, given the organization cannot approach its higher goals without first addressing the needs of Goal: D? The mapping of the goals in figure 13.1 suggest that "A Timely Outcome" is one of these lesser important on it face, but most important within the context of success goals. Therefore, the weighting methodology is devised to measure that importance.

This weighting method does require the strategic planning approaches to seriously consider "A Timely Outcome" for a higher weighted score, which is a presumption set upon the approaches that significantly affects the comparative outcome. The reader should keep this in mind as situations where these approaches are applied and goals were not inter-related could lead to a significantly different outcome.

Limitations of, and Considerations Pertaining to, the Evaluation Method

There are five areas of limitation and consideration that need to be addressed in order to employ this evaluation method in order to comprehend the outcome. These include who is involved, the definition of the problem, issue or opportunity, the set of possible strategies, limitations on group and approach dynamics and potential bias by the author.

Who Is Involved

The summary list of stakeholders is brought forward from chapter 12 also with numbering and abbreviations added (where possible) to reduce clutter on the various grids used in the four methods (table 13.1). The list of stakeholders is not categorized as it cannot be assumed that the individual approaches would come up with those categories. I have settled on this list as the one to be used for all the approaches as it is one that was derived from the case itself. I am certain however, that this would not be the exact list that would be generated by the approaches themselves as each approach would generate the list in a manner that would be situation dependent (based upon succeeding chains of conversation that may or may not happen) as sophisticated brainstorming efforts are almost certain to be. For example, I know that the application of the Finn approach (which is the only one that I feel even somewhat qualified to extrapolate on in this area) would yield at least two more stakeholders. This is an acknowledged, serious shortcoming in this evaluation that I have had to accept as any list generation based on an approach would be pure speculation on my part that almost certainly would be wrong. Therefore, I have settled for a general list of the stakeholders who were significant to the case based on the narrative history developed and the critical incidents analysis results.

The General Problem Definition

A second major condition that I have set for all approaches is the general definition of the problem, issue or opportunity itself, which is also directly derived from the case. Namely that the issue to be addressed by this case is the problem that there appears to be a situation in Boston where minority and low income areas are unable to obtain access to the necessary financial opportunities that are available to other areas of the city. This access is difficult or impossible not only for the inhabitants of those areas, but also the governmental and community enterprises established to support them. This condition appears to be due to the actions of individual banks and the industry at large that have operated in such a manner as these actions have resulted in a discriminatory effect.

The Set of Possible Strategies

It is also almost certain that each approach would develop a set of different strategies to address its own definition of the problem. These strategies would the results of the approaches that certainly are important to the outcome, but not contribute to the evaluation of the stakeholder components of the approaches. And as the criteria for success for this evaluation are externally set, based upon the case itself as discussed above, it would be inappropriate to allow an approach to track towards a strategy that develops a solution other than the ones defined. Therefore, the strategies available to the group are limited to ones that work toward the seven criteria listed above.

Namely the organization will work towards the solution of one or all of obtaining:

1. An identified funding commitment (what funds are coming from whom?)
2. An enforceable agreement (what are the assurances that the agreement will be carried out?)
3. A measurable change in banking results (did the community benefit from this approach?)
4. A well defined bank commitment (are there explicit commitments from the banks?)
5. A designated community authority (is there an acknowledged group recognized by all parties who can and will evaluate the commitments made and will establish a standard of operation?)

6. A recognized community public voice (is there an acknowledged group recognized by all parties who can speak for the community itself?)

7. A timely outcome (does the approach contribute to a timely outcome?)

The choice however, as to which strategy is important, which is less important and which are not important at all to the group is still an option for the approaches. A table has been developed that identifies the strategies in terms of their importance to the group for that particular approach. The options are determined as strategies the group would consider:

1. Important
2. Less Important
3. Not important

Strategies that fall into the less important and not important categories are discussed in terms of why that would be for the group involved in each approach.

Limits on group and approach dynamics

It is important to acknowledge that extrapolating the results of strategic planning and management approaches is inherently difficult. By definition, the approaches follow an emergent theme, which reveals two difficulties. First is that the process is extremely dependent on the particular dynamic of the situation itself. Each approach might take an almost infinite variety of "turns" as the conversations between members progressed as the approaches all seek to capitalize on the knowledge and interaction of the group. Second (which follows from the first assertion) is that the outcome of any of the approaches would vary depending on the particular situation it is enacted within. For example: on any one day, a member of the group may volunteer information or not; the facilitator may catch a meaningful exchange or not; the group may have pressing obligations which distract it or not... The variability at this level is infinite. If the popularized version (television, magazines, non-mathematical books, etc.) of the term "chaos" were used, this is very much the problem of understanding that the effects "of the flapping of a butterfly's wings presumably may have an effect on the weather." That is another reason why I asserted in chapter 9 & 10 that the dynamic established between definition of the problem, issue or opportunity and the organization comprised to deal with it, *limits the universe of potential solutions*, rather than arguing there would only be one possible solution. All of the approaches deal with this "chaos" like effect by invoking conversations that are grounded in other outcomes from the group as well as continually checking further outcomes by reviewing them in some manner with earlier outcomes. Eden and Ackermann in particular have acknowledged this problem and developed cyclical processes that tend to ensure a rational process and outcome.

Potential bias by the author

Despite all attempts to eliminate bias regarding the evaluation of the four approaches, it must be acknowledged that this bias may still exist. In order to reduce the possibility of such a bias, I have attempted to attend to each process as it is defined in the relevant chapter describing it. Even so, my working knowledge of the Bryson approach after using it with the author for several years; my knowledge of the Eden and Ackermann approach with Colin Eden as my advisor; relatively little contact with the Nutt and Backoff approach, despite the use of portions of it; and of course, my intimate knowledge and experience with my own approach cannot be ignored as having real potentials for biassing the results.

One method to reduce these potential biases would have been to contact the authors for a critical review of the approaches. I chose not to do so for two reasons. First is the sensitivity of this work in that this is a comparative analysis that the authors would want to defend their approaches and therefore would insert their biases into the work. This is why I was careful to restrict my analysis of the Eden and Ackermann work to a certain point in time by entering the dates of the book files I was working from. Second has to do with the method I have used to present the author's approaches. Each approach was taken from the author's writing and does not reflect work they have not documented. Therefore, another potential bias would be the problem that the authors would have regarding what they "wrote" versus what they now "do."

The above argues for an evaluative approach that attends to the larger, more common parts of the content and the approaches that are less likely to be affected by the "butterfly effect." Which is why a generalized stakeholder list with generalized definitions has been used and an attempt to strictly follow the approaches <u>as discussed</u> in chapters 4-6 and 9-10 have been applied. This certainly does mean that the "nuances" of the content and approaches which each author has asserted are critically important are not attended to in this evaluation.

However, any meaningful comparison of approaches such as these will require qualifications and restrictions such as the ones described above.

TABLE 13.4

SUMMARY LIST OF STAKEHOLDERS (from chapter 12 with abbreviations and identifying numbers)

1-Massachusetts Bankers -Association (MBA)
2-The Big Banks (BIG BANK)
3-Bank of Boston (BOB)
4-Bank of New England (BNE)
5-Boston Bank of Commerce (BBC)
6-Boston Redevelopment Authority (BRA), headed by Stephen Coyle
7-Public Facilities Department (PFD)
8-City Treasurer (Treas)
9-City Council (COUNCIL)
10-Homeless and Social Services Agencies (HOMLS)
11-Mayor's office: Mayor Flynn (MAYOR)
12-Director of Housing, Peter Dreier (DREIER)
13-Attorney General's Office (ATTYGEN)
14-Mayor of Boston (GOVCAND)
15-Senate and Housing Banking Committees (CONGRESS)
16-Congressman Joe Kennedy (KENNEDY)
17-Church: Reverend Charles Stith (STITH)
18-Community Investment Coalition (CIC)
19-Greater Roxbury Neighbourhood Authority (GRNA)
20-Massachusetts Affordable Housing Alliance (MAHA)
21-Massachusetts Community Action Programme (MCAP)
22-Massachusetts Association of Community Development Corporations (CDC)
23-Dudley Street Neighbourhood Initiative (DCDC)
24-Federal Reserve Bank of Boston (FED)
25-Richard Syron (SYRON)

Nutt and Backoff Process

This process involves both a stakeholder and resource analysis to apply the strategies and actions developed by the SMG. The SMG would be comprised of staff from the BRA and Peter Dreier as these were the group actually designated to work on the case and Nutt and Backoff give no instructions that would vary that designation.

Nutt and Backoff would then construct a table to explore the six stages of their process. Stages one through four are dedicated to the formulation of strategic options (which are predetermined for this evaluation and therefore not included herein), along with a decision regarding which of the seven strategic options are to be employed, based upon the capacities and interests of the group. Stages five and six are portrayed and discussed in further detail as they represent the stakeholder and resource analysis portions of the approach, which warrant closer attention.

Table 13.5 STRATEGIES THE GROUP WOULD CONSIDER:

IMPORTANT	LESS IMPORTANT	NOT RELEVANT
1. A timely outcome		
2. A well defined bank commitment		
3. An identified funding commitment		
		4. A recognized community public voice
5. An enforceable agreement		

IMPORTANT	LESS IMPORTANT	NOT RELEVANT
	6. A designated community authority	
7.A measurable change in banking results		

As the SMG consists of the BRA and Dreier, their interests would focus on strategies that would benefit their organization. A designated community authority that set guidelines for community access would not be beneficial to this organization as it assuredly would have its own avenues (as it currently has).

A recognized community voice would not be necessarily helpful to this group either and even might be considered an impedance or threat. This reasoning for this is that under the current strategies, this organization would be set up as the only valid spokesperson. A community spokesperson might not agree with the BRA at some point and therefore could become a threat.

Below (figure 13.2) is a depiction of what such a process might look like based upon an estimation of power and support derived from the stakeholder descriptions and the dynamics of the case itself.

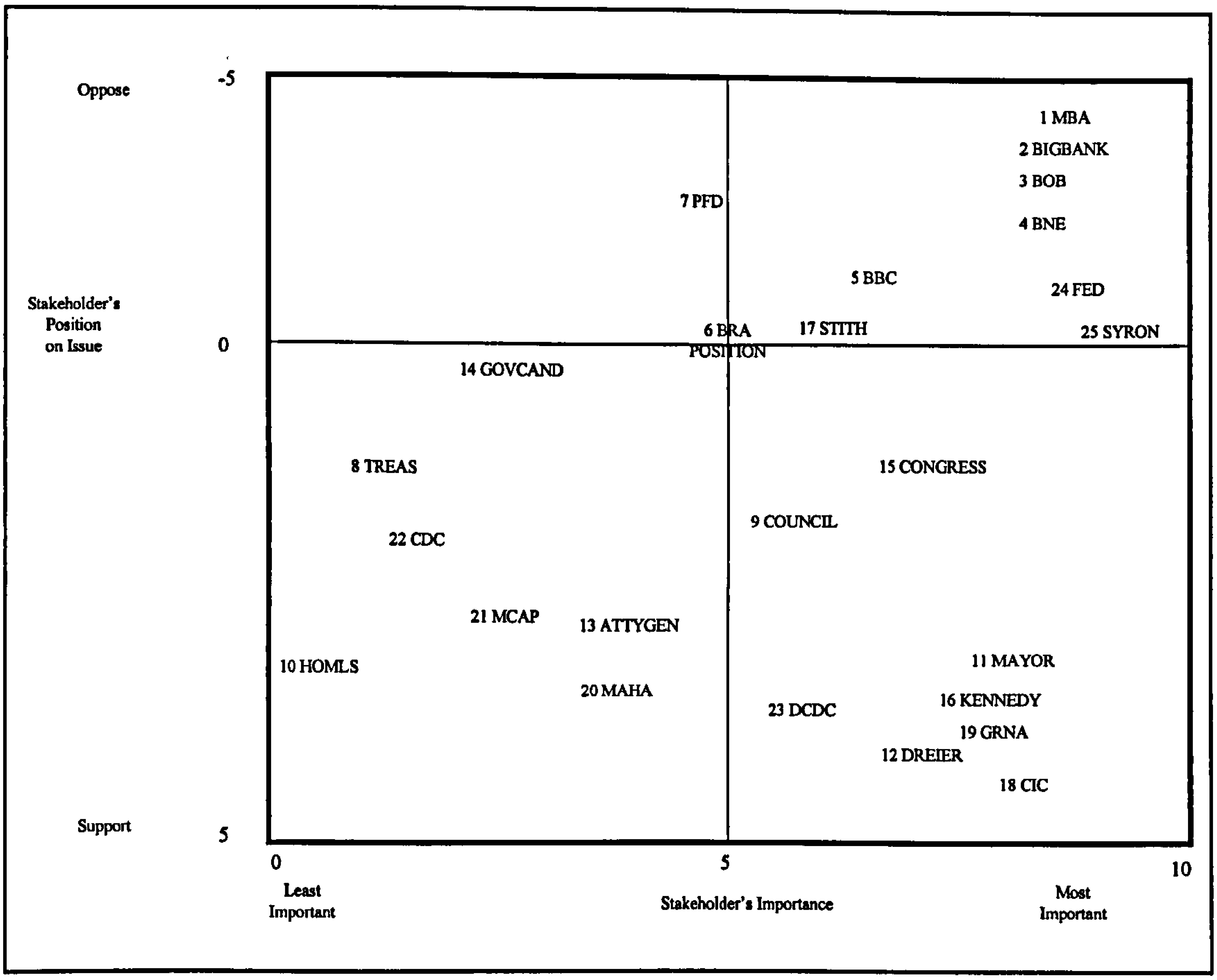


Figure 13.2 Stakeholder Assessment (Nutt and Backoff Process)

The stakeholder assessment grid process would reveal some particularly telling information regarding certain stakeholders. First is the positioning of the stakeholders supporting the banks (stakeholders 1-5). All five of them are located in the upper right quadrant, with the MBA furthest out and Boston Bank of Commerce (the black minority bank) closest in. From this positioning, it would appear that dealing with the MBA and the big banks as a group would have the least chance of success while there would be a higher chance of success working with the Bank of New England (4) and Bank of Boston (3) by themselves. The Boston Bank of Commerce (5) might be an important ally to pursue, but a deal with them wouldn't have near the impact as with the others. In addition, the point of approach regarding the regulators would best be through Bill Syron (25) as his position on the grid shows he is relatively more supportive than the Federal Reserve Bank (24) itself. Reverend Stith (17) is also perceived as a potentially antagonistic opponent, but certainly should be contacted as he is placed rather close to the axis.

The only stakeholder in the problematic stakeholder quadrant is the Public Facilities Department (7), which has a long standing feud with BRA and perceives this action to be a direct intrusion on their "turf." In the original experience the BRA understood this and choose to ignore this threat.

The only other stakeholder close to the "0" axis in terms of support and opposition is Mayor Flynn as the candidate for governor(14). From the relative positioning of this stakeholder, it was apparent that not much time needed to be invested in dealing with the issues around it. The City Treasurer's office (8) and the homeless and social services (10) agencies did not have enough power to be involved. The Community Development Corporations (22) and the Massachusetts Community Action Programme (21) are also supportive, but probably would have little impact. The Massachusetts Affordable Housing Alliance (20) and the Attorney General's office (13) should probably be kept apprized of any activities decided upon.

Within the quadrant that represents both importance and support, it is clear that relations between these stakeholders (15, 9, 11, 16, 12, 23, 19, 18) and the BRA need to be strengthened. With the exception of the City Council, this is exactly what the BRA did.

Below is a resource assessment grid (figure 13.3), which identifies the stakeholders who have the resources sought after (money, bank locations, mortgages, etc.), which is identified on the grid as "where is the money." There are other resource grids that could have been developed for this case, with indices of community support and regulatory support, but neither involved the most critical resource needed from the community perspective as identified in table 13.3. Namely additional funding and increased access to financial services by the community.

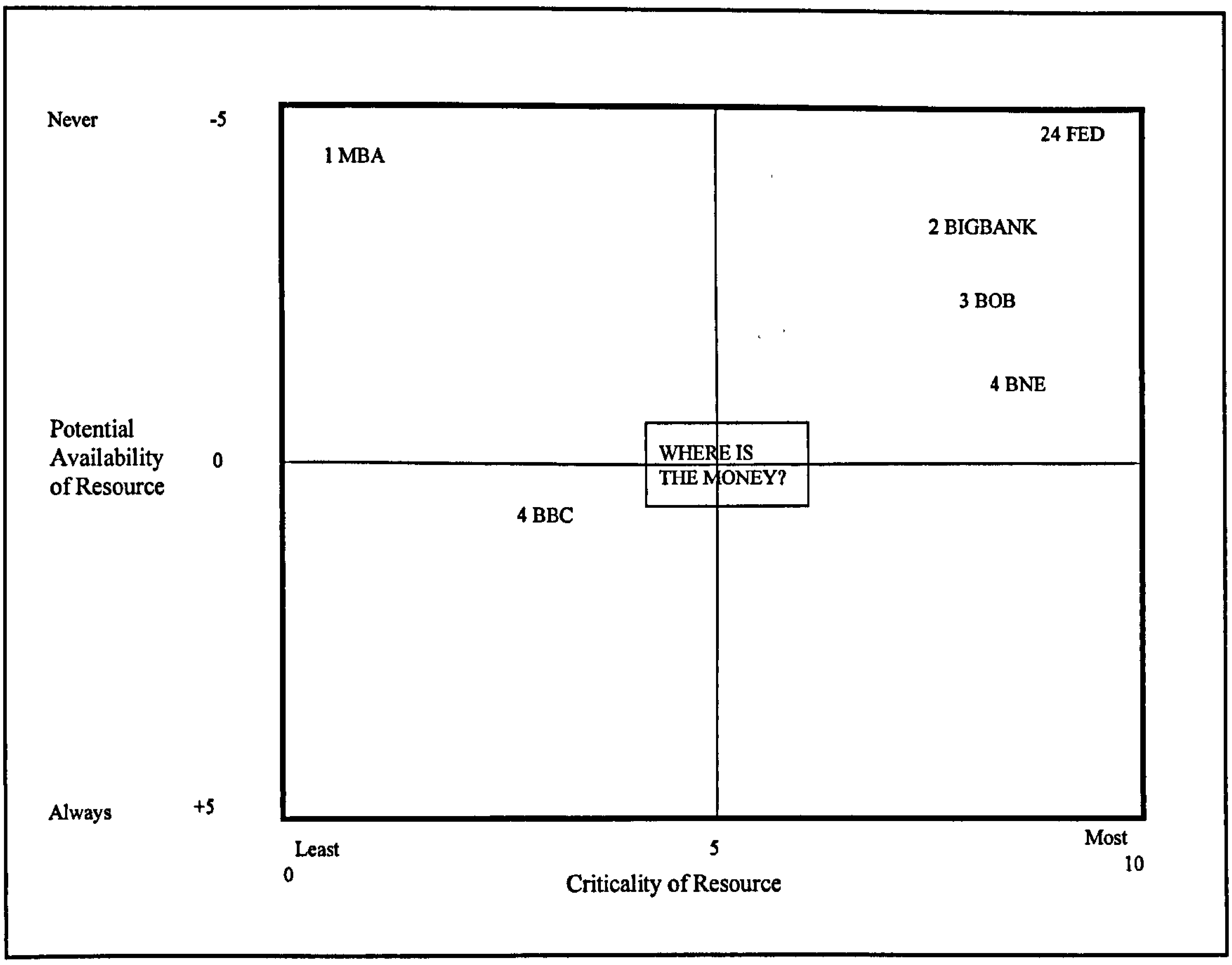


Figure 13.3 Resource Assessment (Nutt and Backoff Process)

The most important insight from the process of developing and understanding this grid is the observation that the Massachusetts Bankers Association (1) cannot provide the resources needed. The association exists as a forum and central spokesperson for banking interests, largely in political forums such as the legislature. It was not created to act as a funding agency, nor was it intended to be a broker for other parties. Therefore, while it would seem that the MBA was an ideal spokesperson for the banks, it was not necessarily true they would be able to negotiate and manage and monitor the resources necessary for success in the community. This is especially true when the level of opposition by the MBA to this process is taken into account from the Stakeholder Assessment grid (figure 13.2).

A second resource concern that might come to light during the discussion of the placement of the MBA on this grid is the concept of "mainstreaming." This has to do with inculcating the people from the community and neighbourhoods into the day to day business of the banks serving the Boston community. If all loans were placed through the MBA by some special programme, this programme would probably remain a non-standard operation that would not be successful over the long term as the banks would have no experience (or trust) in the process. However, this would not mean much to this organization as their strategic priorities as represented in table 13.3 do not put a high priority on number 5: A designated community public voice and therefore, this issue would probably be only of intellectual interest.

The other surprise regarding this process is the relatively low ability for the Boston Bank of Commerce (5) to provide the necessary resources for a successful solution. Taken together with the stakeholder grid, it becomes obvious that attending to relations with this stakeholder would not result in the necessary resources needed for success.

This grid suggests that the stakeholders to approach are the Bank of New England (4), the Bank of Boston(3) and the Big Banks(2) as they are the ones with the necessary resources. The Boston Federal Reserve also has resources, but it appears that it would take more effort to persuade this stakeholder than the others.

Resultant Strategy:

The strategy that would emanate from this process would have the BRA obtain the support of the stakeholders who reside in the quadrant of the grid in figure 13.2 that connotes both interest and support. The BRA would then approach the Bank of New England(4), the Bank of Boston(3) and the Big Banks(2) to forge agreements. Other stakeholders would be either kept apprized of developments or left out of the central process. The Reverend Stith would be approached, but would not be included as part of the support group. The strategy would be to neutralize him as his agenda was to be a power broker of the events and thus gain local and national standing. While this might not be an objective of the other stakeholders and therefore might be accommodated, there would be no need for his support (he had no base of support) given the negotiations would be with the banks themselves. The Public Finance Department(7) would be kept out of the process. As the Boston Bank of Commerce(5) would not be able to provide the necessary resources, they would not approached.

Extrapolated Results:

1. An identified funding commitment

    One of the major failures of the original experience was relying on the Massachusetts Bankers Association to raise the funding from the banks. This approach would avoid this error by directly negotiating with the large banks and therefore would ensure for an identified funding commitment. Score: 9

2. An enforceable agreement

    The agreements would be with individual banks that could then be directly evaluated in terms of the bank's performance. This should help ensure that banks would be held accountable to the agreement. Score: 9

3. A measurable change in banking results

   Most of the resources actually contributed by the banks in the original experience were from agreements enacted with individual banks. Therefore, little would be gained from this approach. The possible exception might be the individual commitment to locate branch banks in the neighbourhood. Score: 6

4. A well defined bank commitment

   Due to the individual agreements with the largest banks, the possibility for a standardized market process or an across the board bank commitment would be dramatically reduced. Score: 3

5. A designated community authority

   The original process resulted in the designation of the City Treasurer's office as the oversight authority. This approach would not be able to fair any better as the BRA would still lack the credentials to negotiate on behalf of the community or the city. Also, this was a less important strategy for this group. Score: 5

6. A recognized community public voice

   As the agreement would be forged with the BRA and perhaps other city stakeholders, there would be no chance of a recognized community voice to evolve from the efforts. Also, this was not an important strategy for this group. Score: 1

7. A timely outcome

Negotiations with individual banks would take much less time than original process did due to fewer problems with communications and confirmations of agreement. Most actions of this sort are with individual banks and those experiences demonstrate these agreements can be accomplished within a time frame of a few weeks to a few months. Therefore a series of individual agreements tends to ensure the continued focus of public attention by continually raising the issue as a positive series of successes and increasing the pressure on successive agreements to meet and exceed the previous agreement. This process of negotiations should significantly improve potentials for a timely outcome. Score: 8

Table 13.6 Scoring: Nutt and Backoff

Criteria	Nutt & Backoff	Bryson	Eden & Ackermann	Finn	Original Experience
ST= Short Term/ LT=Long Term	ST/ LT	ST/ LT	ST/ LT	ST/ LT	ST/ LT
1. A timely outcome	8/ .8888				5/ .5556
2. A well defined bank commitment	3/ .6111				5/ ..5556
3. An identified funding commitment	9/ .7593				5/ .5556
4. A recognized community public voice	1/ .5370				5/ .5556
5. An enforceable agreement	9/ .6975				5/ .5556
6. A designated community authority	5/ .6420				5/ .5556
7. A measurable change in banking results	6/ .6605				5/ .5556
TOTAL:	41 / .6605				35/ .5556

The Bryson Process

Bryson would begin with a strategic planning group from the BRA with Dreier as these were the group actually designated to work on the case. Bryson does suggest that a preliminary stakeholder analysis would be helpful, but that analysis would be an internal one that would not vary from that original designation. Bryson utilizes the stakeholder process to help identify and define the issues facing the organization. His approach is to

- first come to an agreement on the process
- Identify organizational mandates
- Clarify organizational mission and values

These three steps are subsumed by the problem definition already presented for this case.

His next step (step four in the Bryson process) would be to brainstorm the stakeholders and group them.

Table 13.7 Stakeholder Grouping (Bryson Approach)

THE MBA

1-Massachusetts Bankers -Association (MBA)

THE BIG BANKS

2-The Big Banks

3-Bank of Boston

4-Bank of New England

THE LITTLE BANKS

5-Boston Bank of Commerce

CITY GOVERNMENT

6-Boston Redevelopment Authority (BRA), headed by Stephen Coyle

7-Public Facilities Department (PFD)

8-City Treasurer (Treas)

9-City Council (COUNCIL)

10-Homeless and Social Services Agencies (HOMLS)

11-Mayor's office: Mayor Flynn (MAYOR)

12-Director of Housing, Peter Dreier (DREIER)

STATE GOVERNMENT

13-Attorney General's Office (ATTYGEN)

14-Mayor of Boston (GOVCAND)

FEDERAL GOVERNMENT

15-Senate and Housing Banking Committees (CONGRESS)

16-Congressman Joe Kennedy (KENNEDY)

24-Federal Reserve Bank of Boston (FED)

25-Richard Syron (SYRON)

CHURCHES

17-Church: Reverend Charles Stith (STITH)

COMMUNITY GROUPS

18-Community Investment Coalition (CIC)

19-Greater Roxbury Neighbourhood Authority (GRNA)

20-Massachusetts Affordable Housing Alliance (MAHA)

21-Massachusetts Community Action Programme (MCAP)

22-Massachusetts Association of Community Development Corporations (CDC)

23-Dudley Street Neighbourhood Initiative (DCDC)

Each group is then evaluated in terms what their issues are and a score of A-F is given that represents how the stakeholder would envisage or react to the organization. Where there is a perceived difference between the stakeholder and the BRAs perspective, the stakeholder's estimation of their performance is given first and the BRAs position is second. Finally potential solutions are generated that would satisfy the stakeholders interests (step five in the Bryson process).

Table 13.8 Stakeholder Issue/Ranking/Solutions

STAKEHOLDER CATEGORY	STAKEHOLDER ISSUES	Rank A-F*	POTENTIAL SOLUTIONS
THE MBA	-Protect the reputation of banking	B/D	-Show that banks have essentially colluded to deprive community
	-stop all initiatives to restrict banks	C/C	-Show that MBA cannot do what it claims -Strategize to divide banks

STAKEHOLDER CATEGORY	STAKEHOLDER ISSUES	Rank A-F*	POTENTIAL SOLUTIONS
THE BIG BANKS	-Need to keep growing	A/F	-Threaten regulation -Expose discriminatory activities
	-Must look good to community	B/D	-Figure out what each bank can give based on size and reputation
	-Keep reputation	B/D	-Ask city, state and federal government to explore regulation
	-Not to make $ commitments to communities	A/F	
	-Keep out from under regulation	B/D	
THE LITTLE BANKS	-Don't get "eaten"	B	-Make participation contingent on their active support of city proposals
	-Don't lose market niche	B	-Figure out what each bank can do based on size, location and history
	-Don't lose state and local government business	A	-Approach as partner rather than advocate
	-Not to make $ commitment to communities	C	
	-Keep out from under regulation	B/D	

STAKEHOLDER CATEGORY	STAKEHOLDER ISSUES	Rank A-F*	POTENTIAL SOLUTIONS
CITY GOVERNMENT	-Have financial support for development initiatives	C	-Get banks to become more interested in these projects -Get banks to make more money available -Get banks to publically invest in Boston
	-Have financial support for housing initiatives	D	-Do not fight publically with banks by keeping it all behind doors -Have a strong bargaining position by positioning others to threaten banks
	-Demonstrate commitment to communities	C	
	-Keep good relations with business	C	
STATE GOVERNMENT	-Demonstrate that MA is supportive of its constituents	B	-Get Attorney General's office to offer joint announcements -Have Attorney General's office start an investigation under their authority and link it to BRA investigation
	-Establish MA as a leader in minority relations	C	-Support state efforts to make a name for themselves
	-Demonstrate that state is on par with US Dept of Justice	D	

STAKEHOLDER CATEGORY	STAKEHOLDER ISSUES	Rank A-F*	POTENTIAL SOLUTIONS
FEDERAL GOVERNMENT	-Boston Fed wants to appear impartial -Congress wants to establish that it is doing its job and the "right thing" -Kennedy wants to be a national leader in this area	B/D C C	-Call on Fed and Syron to meet with BRA -Continually challenge Fed to be impartial and site questionable actions -Separate Fed from banks -Make full use of Congressional hearings with BRA as a partner -Get Kennedy's staff on board as part of BRA investigation (save resources)
CHURCHES	-Establish Stith as a national leader -Establish Stith as a negotiator like Jesse Jackson -Use the force of the church to determine moral standing of the issues	A/D B/D D	-Invite Stith as a participant but not as a leader or negotiator -Ask churches to issue a statement -Recruit some church leaders who have already been active in other areas to set moral climate

STAKEHOLDER CATEGORY	STAKEHOLDER ISSUES	Rank A-F*	POTENTIAL SOLUTIONS
<u>COMMUNITY GROUPS</u>	-Community groups want to be full partners in the negotiation and solution -Community groups are recognized as bona fide resources -Community group mechanisms are used in the solution -Credit goes to the community groups	D D D D	-Engage community groups as part of the BRA process (advisors) -Make sure some of the money for solution is funneled through cooperative community organizations -Make sure community groups are publically recognized as part of process, but not controlled by BRA (this allows them to do things that BRA cannot) -Establish the city linkage to community groups as partners to BRA

* Where there is a perceived difference between the stakeholder and the BRAs perspective, the stakeholder's estimation of their performance is given first and the BRAs position is second.

Bryson's next step (steps: five continued, six and nine of the Bryson process) would be the construction of a SODA map to understand the linkages between the possible strategies and actions that could be undertaken and the goals. For the purposes of this exercise, the map below is illustrative of steps six and nine of the Bryson process.

Note: I have not used steps seven, eight and ten of the Bryson process as they are outside the scope of this exercise.

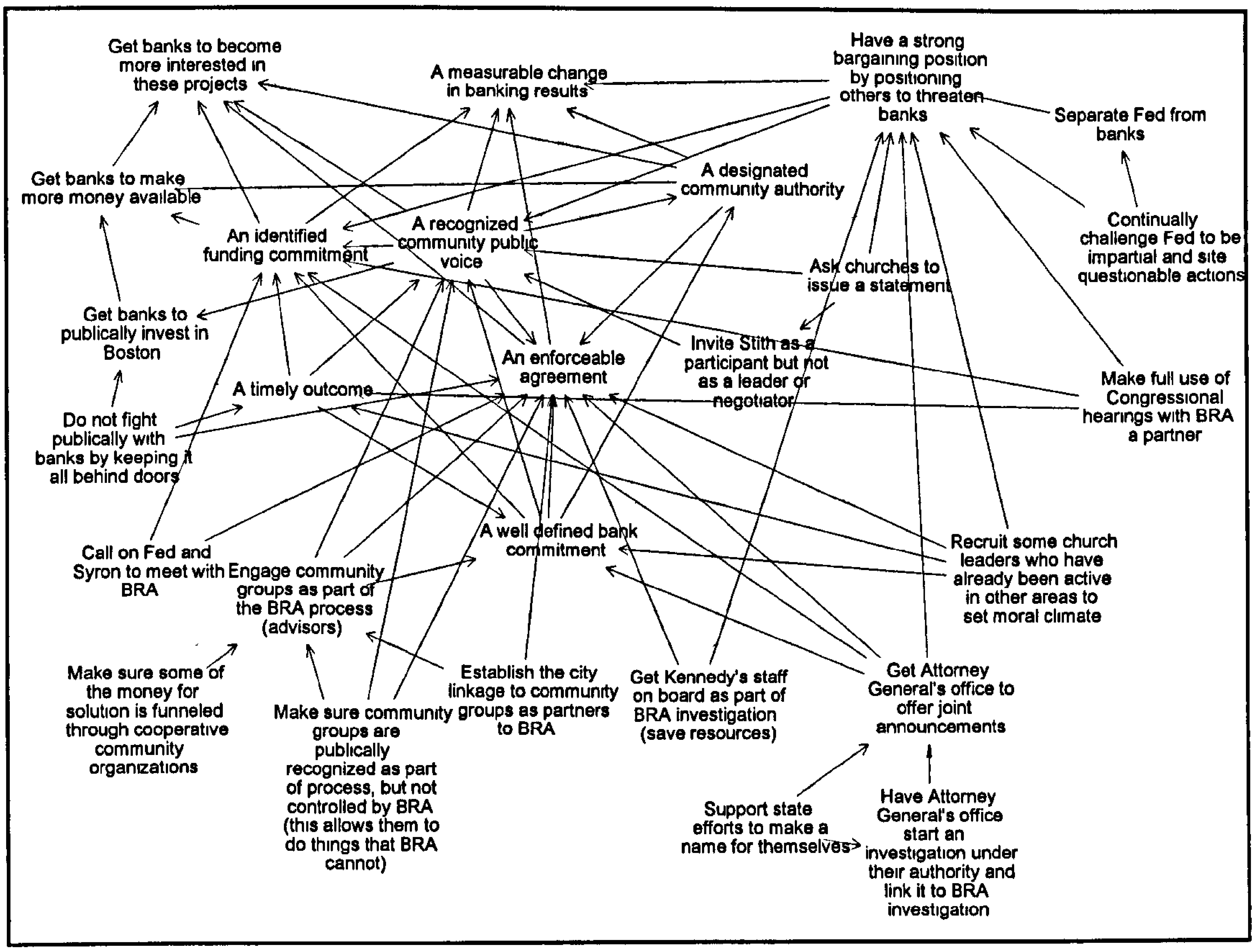


Figure 13.4 Bryson Mapping of Strategies and Actions to Goals

This map demonstrates good support for all the criteria mapped with the possible exception of "a designated community authority." A decision of the group at this point might be to delegate that activity to the city Treasurer's office, which would cover that option. The next step would entail the selection of the groups' preferred set of options to support. Given there is little or no conflict between the above options and they can all be encompassed by the overall strategy listed below, I have included all of them as the strategies and actions that comprise the set of implementation strategies.

Table 13.9 STRATEGIES THE GROUP WOULD CONSIDER:

IMPORTANT	LESS IMPORTANT	NOT RELEVANT
A Timely Outcome		
A Well Defined Bank Commitment		
An Identified Funding Commitment		
	A Recognized Community Public Voice	
An Enforceable Agreement		
A Designated Community Authority		
A Measurable Change in Banking Results		

While having a public voice would be helpful to the outcome, it is not an option that this group would consider as important as the others as it does not directly affect them nor is it something they can do much more than support. The set of strategies mapped above in Figure 13.4 however, does support a public voice as a tertiary outcome to other actions.

The potential solutions would then be considered as issues the BRA would incorporate as parts of an overall planning approach. While there is some conflict between proposed solutions, in general they assert for a combined approach by stakeholders supporting the community position. This would lead to a concerted effort by the BRA, city, state and federal government (excluding the Boston Fed), community groups and selected church leaders to publically exhort and negotiate with the MBA and selected banks toward a solution. By establishing public linkages between these stakeholders, the BRA could establish itself as the "hub" of negotiations where all information would flow. Stakeholders who supported the process would be rewarded with recognition as community spokespersons and as members of the oversight organization who could "officially" comment on the banks performance. The MBA and the individual banks would find themselves under tremendous public pressure to come to solution with few alternatives for escape.

Extrapolated Results:

1. An identified funding commitment

As the MBA would still be the central negotiator representing the banks interests, this approach would still suffer from this organization's inability to support the agreed upon programmes with either money or staffing. The additional pressure from a unified community approach should allow the BRA to negotiate a clearer commitment with additional identified funds. The same could be said for the individual agreements with selected banks. Score :7

2. An enforceable agreement

Again, as the MBA would be the agency the BRA would be negotiating with toward the fulfilment of the agreement, the MBA might look bad in the public arena in terms of bank non-performance, but the banks would not. Due to the additional pressure and oversight however, the ability for the banks to ignore whole parts of the agreement such as establishing branch banks would be significantly harder. Score: 6

3. A measurable change in banking results

   There should be some measurable change in the total resources invested in the communities due to the increased pressure brought by coordination of stakeholders by the BRA. This should make it harder for the banks to renege on their commitments to the MBA and the BRA. The major reason that significantly more resources were not committed by the banks was due to their estimation that they would not be held accountable for reneging. Score: 8

4. A well defined bank commitment

   The potential for a standardized market process would be enhanced as the BRA and the MBA would both continue as active stakeholders. The BRA however would have the support of the combined stakeholders which should keep the public attention on this issue and increase the potential for success. Score: 7

5. A designated community authority

   The original process resulted in the designation of the City Treasurer's office as the oversight authority. This process would not be able to do any better as the BRA would still lack the credentials to negotiate on behalf of the community or the city. Score: 5

6. A recognized community public voice

   As the agreement would be forged with the BRA and perhaps other city stakeholders, with community organizations as advisors. This would increase the chance of a recognized community voice to evolve from the efforts, but would not ensure such an outcome. Score: 7

7. A timely outcome

Negotiations with the BRA and MBA would still remain a protracted process as both parties had to go back to their constituents to ensure continued support. This type of shuttle negotiation allows constituents behind the process to limit the options and flexibility of negotiations by either vetoing solutions or making the negotiation so difficult as to essentially veto it. Which would require yet another round of negotiations. The major problem with this process is the amount of time necessary to convene stakeholders for a remote consensus effort. This would significantly slow down the process. However, the BRAs effort to act as the negotiation hub should speed up the process and public pressure will help ensure that stakeholders make an effort to attend. Given there are forces acting for and against this criteria, it is hard to estimate what this process outcome will be. I would hazard that the consensus process would take more time than the BRA's ability to coordinate could make up. Therefore, this process could take more time than the original experience, but will still risk losing the publics attention and support. Score: 4

Table 13.10 Scoring: Bryson

Criteria	Nutt & Backoff	Bryson	Eden & Ackermann	Finn	Original Experience
ST= Short Term/LT=Long Term	ST/ LT	ST/ LT	ST/ LT	ST/ LT	ST/ LT
1. A timely outcome	8/ .8888	4/ .4444			5/ .5556
2. A well defined bank commitment	3/ .6111	7/ .6111			5/ ..5556
3. An identified funding commitment	9/ .7593	7/ .6111			5/ .5556
4. A recognized community public voice	1/ .5370	7/ .6111			5/ .5556
5. An enforceable agreement	9/ .6975	6/ .6204			5/ .5556
6. A designated community authority	5/ .6420	5/ .5926			5/ .5556
7. A measurable change in banking results	6/ .6605	8/ .6648			5/ .5556
TOTAL:	41/ .6605	44/ .6648			35/ .5556

THE EDEN AND ACKERMANN PROCESS

Eden and Ackermann would begin with a group of people from the BRA and Peter Dreier who are capable of making decisions for the agency. Given hierarchical design of the BRA and the propensity of its director, Steven Coyle to want a final say in anything that leaves the agency, this group would probably be formed of Dreier and Coyle with support staff as they would be the managers who have *the power to decide*. This group would then decide what their goals and negative goals are and what actions they must undertake to obtain them. As the set of possible strategies are already in place and the possible goals the group will strive for are also, this process is not presented here.

The steps of their process that apply to stakeholder strategies are:

1. Stakeholder Power/Interest Grid
2. Sanctions/Interests Star Diagram
3. Stakeholder Influence Map
4. Stakeholder Management
5. Role Play

Stakeholder Power/Interest Grid

A step, which involves the stakeholder process, which is designed to help the managers think about what other actions might be necessary to be successful, based upon the actions of stakeholders external to the organization.

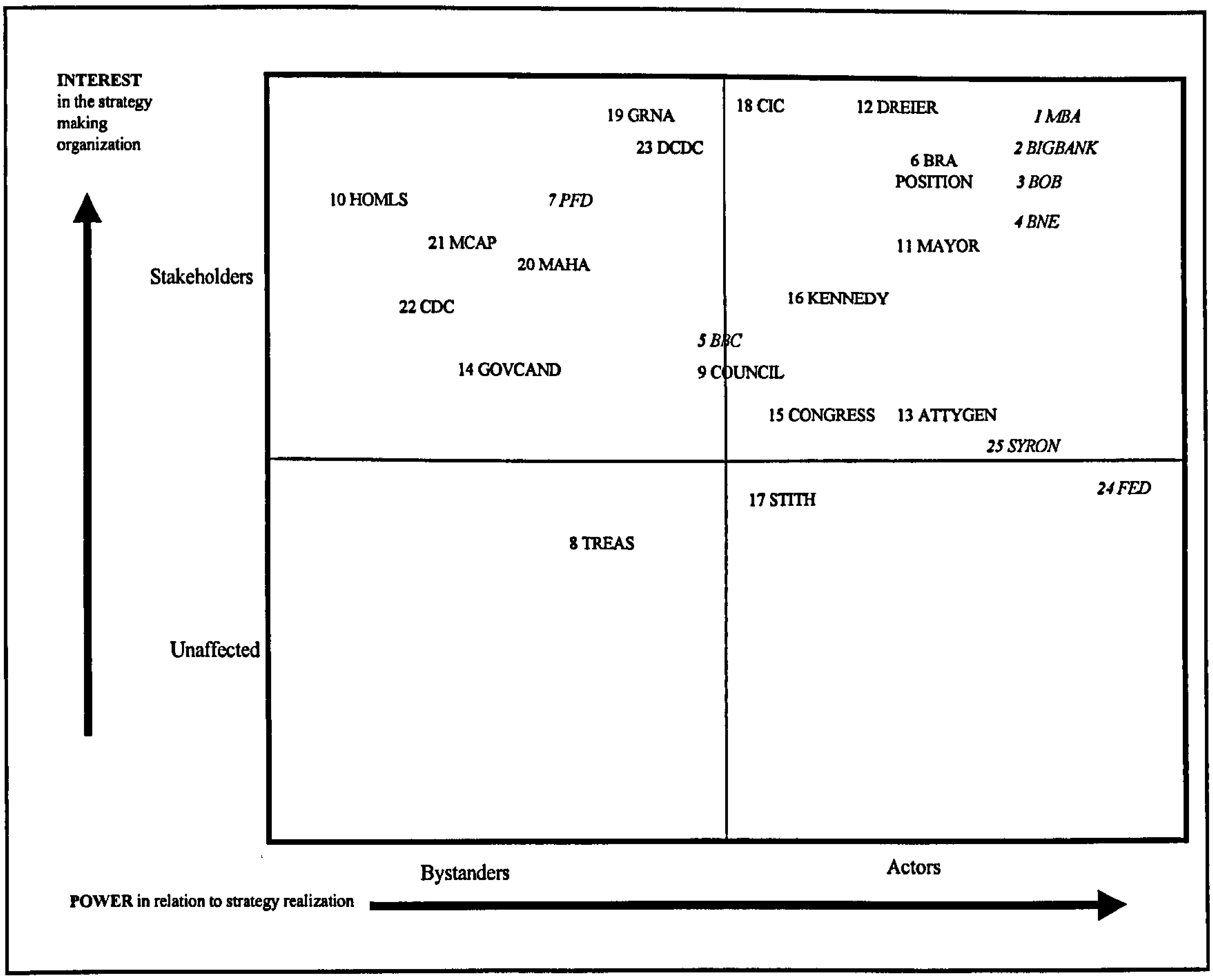
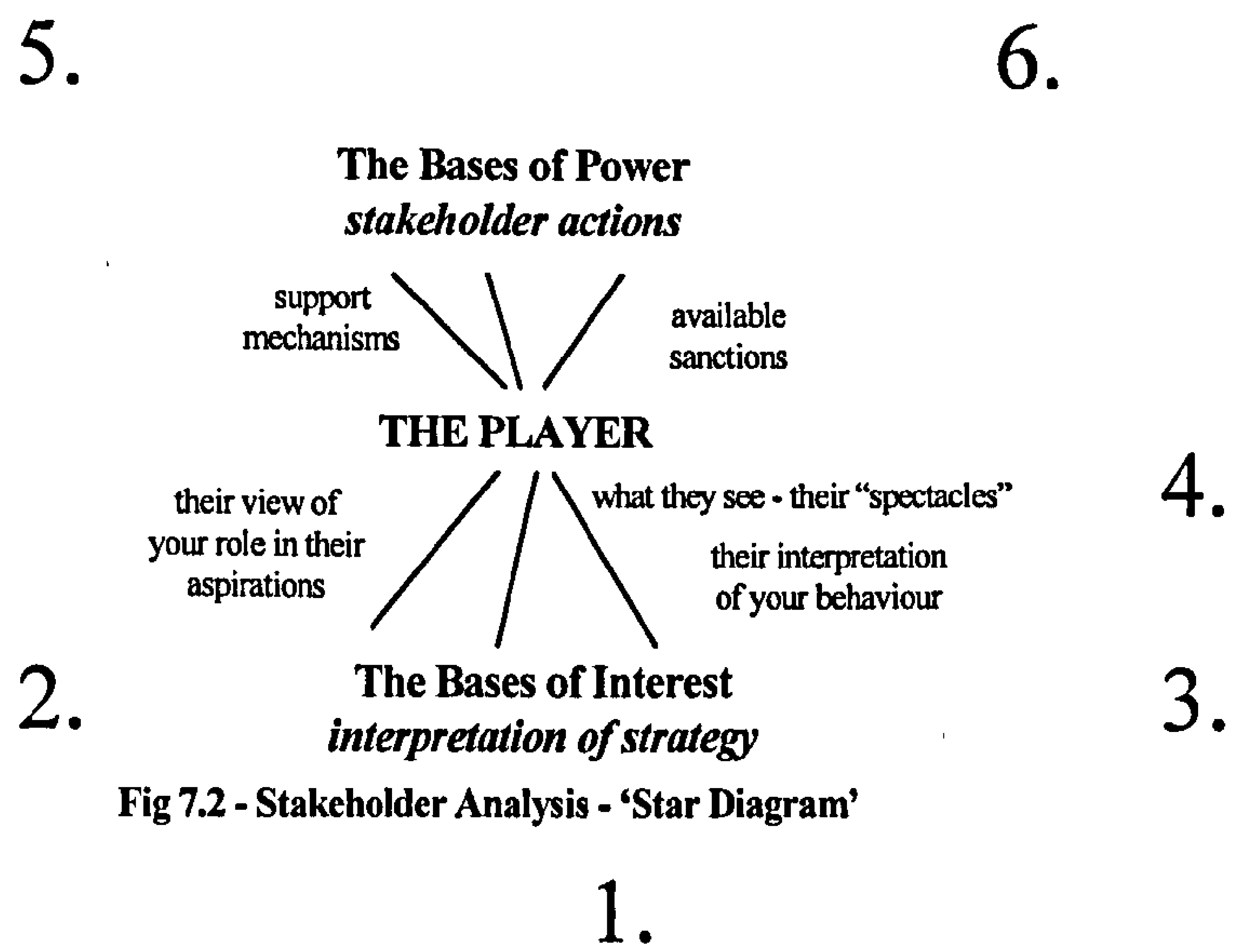


Figure 13.5 Power / Interest Grid (Eden and Ackermann)
* Stakeholders in italics oppose the BRA effort

Sanctions/Interests Star Diagram

A star diagram is then constructed for each of the "player" stakeholders and any others residing in the context setter or leaders grid or the subjects grid who might move to the players grid. As Dreier and the BRA are part of the managers group, it is not necessary to construct their diagram. Below are the elements of the other players' diagrams with a description of what each point of the star means.

Figure 13.6 Star Interest/Sanctions Diagram



<u>Table 13.11 Star Diagram List</u>

1. Managers explore the "Bases of Interest." How will this stakeholder learn about the organizations strategies and actions (monitors) and why would they be interested?
2. What is the stakeholder's perception of this organizations role in their business?
3. How will this stakeholder interpret the strategy or action?
4. If they are supportive, what are they supportive of and what can this stakeholder be persuaded to do and how?
5. If they are not supportive, what do they not support and what are the sanctions available that this stakeholder may choose to utilize?
6. What can be done to mitigate the effect of those sanctions?

Note: When one of the options described above is not identifiable, the number is left out. For example, in the MBA description below, discussion around number four is left out as the stakeholder is not supportive.

Note: I have created diagrams for each of the stakeholders (except BRA and Dreier). However, I understand that for certain processes, the authors only produce the diagram for stakeholders in the "players" quadrant.

MBA (1) (opposition)

1. MBA represents banking organizations in the political and governmental arenas both as a spokesperson and negotiator. The organization has local and state governmental connections through lobbyists. Any attempt to change or regulate banking practices would interest this organization.
2. This organization is a powerful agent for the banks with the capacity to take over the negotiation process if allowed. The organization will undoubtedly try to obfuscate and delay, hoping the issue will move from the public interest. The last thing this organization would want is for some regulatory reform to come from this process
3. The MBA will interpret this effort as a direct attack on the banks. Their view will be that this is a type of extortion or strong arming by the BRA to get what they want.
5. Any research and finding will be suspect if it does not support the banks. They will use their connections and influence to say things the banks would not want attributed to them and to absorb any bad feelings from the public so banks are not directly named. They will continually look for a "deal" which will be relatively inexpensive, absolves the banks and makes the issue disappear.

6. The MBA is not vulnerable to attacks as their very purpose is to fend off and absorb attacks upon the banks. The term used in the United States for this type organization is "flack catcher." Perhaps their credibility in terms of intentions to really negotiate could be questioned.

Bank of Boston (3) (opposition)

1. As one of the largest banks in Boston and having identified itself with its name as wanting to be recognized as part of the city, the prestige and market interest raised by this process is considerable. Its corporate headquarters is in Boston and it has many financial and political links to the community.

2. The Bank of Boston's public stand is that they are amazed that anyone would even consider they have not been acting in the behalf of the community. Privately, they are quite annoyed that the whole problem has surfaced publically. They think this is a case of poor bargaining between the BRA and the banks.

3. They will view this as a public relations failure that will have to be fixed.

5. They will try to keep out of the public debate as any discussions would certainly cast them in a bad light.

6. Given this bank's large share of the Boston financial market, any negative research finding regarding discriminatory community lending patterns will be attributed to them for two reasons. First is they are so identified as Boston's bank, not only by their name but also be an intentional advertising campaign that has been in place for years. Therefore, any negative aspersion of banking performance in Boston will be ascribed to them. Second is their market share. It would be exceedingly difficult,

given their market share for the overall research result to be different than this bank's performance.

Bank of New England (4) (opposition)

1. This bank has aggressively entered the Boston market over the past few years by advertising they are the banks for this area and community. They have done many public service ads demonstrating their commitment to the community. They also have bought up many local banks as a part of their plan to be one of the largest banks in the region and the nation. The president of the bank has intentionally sought personal publicity to demonstrate the bank's commitment to the community.
2. The bank will be concerned that they will be branded as a bad bank as many of the banks they purchased have been moving out of minority neighbourhoods, yet the central bank has not exercised any direction in regarding local activity that could have led to a discriminatory effect.
3. The bank will perceive itself as a helpless victim, who has been caught up in a situation they did not make. They will assert that even though they own many of the local banks, they do not really exercise direct control over their business.
5. The bank will take two, different approaches. First is to deny their culpability as they should not be held responsible for the decisions of local banks they happen to own but do not (choose not to) control in a manner that would contribute to a discriminatory result. Second is the one of "surprise" and concern that this activity has been going on with offers to contribute in the solution. This contribution will be contingent on how bad they think they look after these public positions are issued <u>and</u> the results of the analysis are published.

6. The Bank of New England must be held responsible for the banks under its control. It was a management decision to ignore opportunities to ensure the bank was not operating in a manner that had a discriminatory effect. A management decision is no excuse for the discriminatory outcome. Given that BNE(4) will offer to work towards a solution, this probably should be the first bank to begin negotiations with.

Boston Bank of Commerce (5) (opposition)

1. As the one recognized (and touted) minority bank in the community, this bank will be one of the first to be asked about how this could happen and what should be done about it.
2. Any investigation into discriminatory lending in the community has to account for two, little understood rationales, that will put the operations of this bank in a negative light. First has to do with the existence of requirements for portfolio investment of accumulated loans that all banks must ascribe to in order to operate in the secondary market. Banking regulators have for years insisted that banks sell the majority of their loans to the secondary market in order to reduce the individual risk to the bank and also to the region. This results in a national portfolio of investments that helps ensure that economic downturns do not result in disaster for individual banks and communities. As these portfolios are sold as blocks of loans that the investors have no ability to individually examine, the secondary market has established requirements regarding loan surety, type, size, location, etc. that all banks must follow. That probably means this bank has a performance history that is much like the other banks. However, they will be held to a different standard... one that demonstrates they are the champions of the minority community. Second is the

perception in the community that this bank should already have impacted the problem of discriminatory effect in the community. However, it is probably true that while the bank has directed its services to minorities, it has done so selectively. This would result in the bank attending to the minority community that is well off and probably has left the minority neighbourhoods and poorer middle and working class neighbourhoods for better investment opportunities.

3. This bank will be very nervous about the position they could be put into, given what is probably a rational pattern of investments on their part, but will not look like that to the public. They will probably resent the fact that their rationale could be easily exposed and misunderstood.

5. This bank will try to keep a very low profile and will resist being used by either the banks or the community. They will complain that their size and short life make it unfair to examine their performance or place any expectation on them.

6. It is clear this bank probably has little more to give than it already has and any pressure on it could very well backfire as the perception could be easily be presented that they are being focussed on for racial reasons. However, they also probably have a problem with their portfolio as the public might perceive them as an "Uncle Tom" (this name comes from a story by Harriet Beacher Stowe which defines a person who has turned on, betrayed or sold out his/her race as an Uncle Tom). They might be approachable as an example of a bank that supports the communities position, yet is too small to really make a difference.

Big Banks (2) (opposition)

1. While it is true that the big banks do have the most influence with the MBA, they as a group also will have a different position than the MBA as they perceive themselves as <u>the</u> banking community. When the public thinks of banking, these are the banks that come to mind.

2. This group perceives themselves as the prudent executors of the financial estate of the Boston community. Intrusion into that activity will be considered be naive meddling by self interested parties.

3. The big banks have competed enthusiastically for market share in the non minority areas of Boston. Their plans for agglomeration must have directly confronted the question of not investing in the minority communities and decided not to do so. This leaves them in a very vulnerable position as a group as this fact is readily observable. Therefore, they will perceive this as a direct threat to their position. Boston (as does New York city) has a history of being the home of some of the more famous (or infamous) robber barons from the Civil War and railroad eras in United States history. These people took advantage of circumstances to become extremely rich and part of their identity was a reputation that they did not care how they made the money. These banks could very well perceive that this activity could cast them in that guise.

5. They will try to stonewall as a group all actions by delay and obfuscation. Meetings with them will result in each party going back to their institution to confer. That action will result in no response or a series of questions that will require reconsideration of all that has come before. It is in the best interest of this group to stonewall and hope the issue goes away.

6. The only way this group will bargain in good faith is to mount a massive campaign that allows the group no option but to make a deal. They will try to keep the total number down by agreeing beforehand about what they are willing to do. However, they are approachable individually as they each understand the parable of the "prisoner's dilemma" which offers the best deal to the one who comes forward first.

Syron (25) (opposition)

1. Syron will be well aware of this issue as he was privy to the initial Boston Study done by Dunham and Spring and he will have participated with other heads of reserve banks in discussions of the errors made by the reserve banks made in Atlanta and Detroit. He will know this issue will not go away as the banks and the MBA hopes.
2. He will view the actions taken by the BRA and others as unscientific intrusions into areas that only the federal reserve understands and regulates.
3. He is an absolute believer in free market theory and cannot imagine that results of any investigation are discriminatory based. Rather, it is an error in research method. He will be confident that a bonafide investigation will prove this.
4. He will support any finding that asserts that the banks acted irrationally and therefore discriminated and will have difficulty with an argument that infers that discrimination is a common market condition. He takes this responsibility of his job very seriously.
5. He will be dismissive of research and public positions that are not supported by reserve bank research. He will directly control when and how much any reserve bank research reveals, which could have a great impact on the politics of this case.

6. Syron has decided to take a very public role in order to define the problem being addressed and the timing of the release of research. He also is elected as president of the Boston Federal Reserve Bank by the very bankers he is supposedly examining and will most certainly hold their position in private. If the findings are pejorative to the banks, he will try to either stop the release of the study or control its effect. Every effort should be made to publically define Syron's position as from that position, he will not be able to be as supportive of the MBA and banks position as he would privately.

Mayor (11) (Supportive)

1. Mayor Flynn has had an abiding populist interest throughout his career. He has made many campaign speeches regarding the problems minorities have in Boston, Massachusetts and the United States This issue is one he would be interested in. Neither Peter Dreier or the BRA would have been able to move on this issue without at least some support from him.
2. He would be supportive of the issue as long as it did not divide the community. The BRA and Dreier would be sufficiently distant from the mayor's office as to provide some "insulation" if something does go wrong.
3. He will want to be regularly briefed and would be willing to take a lead role in negotiations if there is a chance for success.
4. If progress is being made and there appears to be a valid issue from the public perspective, the Mayor will be sure to add his support. He will probably take his case to the public and portray himself as the key person behind it all. A political win for him would advance his statewide election hopes.

5. If there is little progress and the public does not support the community perspective, he will not move publically on the issue. He might even move within city government to terminate the research.

6. The mayor is a key actor that needs to be publically brought into the action as soon as he can be persuaded to further increase the credibility of the issue. Support from community groups and the press probably have the best chance of making this happen. Bankers will be hesitant to openly oppose the mayor.

The Attorney General's Office (13) (Supportive)

1. This office has had an interest in this type of an investigation/research since the Atlanta, Georgia case. As this office has the responsibility under Massachusetts state law to ensure state residents against discriminatory actions, this case is of immediate interest.

2. The Attorney General's office would be quite supportive of the BRA's investigation as they lack the resources to embark on such an investigation themselves. If they had the resources and the political support, this office would have undertaken such an investigation themselves. Their stand would be "better that someone does this than no one."

3. The office will try to become involved in the investigatory aspect of the case if allowed, but will be very careful about being public before a clear demonstration of public support for the community perspective is shown.

4. The Attorney General's office will support investigations into any demonstration of illegal discriminatory activity. They are attorneys however and will be very careful to limit their actions to ones of that nature.

5. This office will not allow its name or authority to be used by other organizations. It also will not lend its support to issues that are not directly associated with investigations of possible violations of state law.

6. Within the areas of this case that involve possible violations of Massachusetts state law, the additional public support of the Attorney General's office could help form public opinion. This investigation is not being headed or financed by the Attorney General's Office and this could be embarrassing if there was a public perception that this was an operation they should have been doing.

Congress (15) (supportive)

1. Representative Henry Gonzales (Texas) recently became Chair of the House Banking Committee. He had been outraged by the revelations that banks had not only been acting irresponsibly during the Saving and Loan failures, but were also discriminating against minorities. His intention was to transform this committee from one that had been friendly to bankers under the former chair (who had received large campaign contributions from banks) to an aggressive overseer of banking concerns.

2. This committee will view this action as a valid investigation by the community into banks who directly control opportunities for success or failure. Therefore, they will view the BRA role as a partnership opportunity.

3. This committee has a mixture of motivations based upon ethical and political grounds. To the extent the case is proposed as an outrageous affront to the well being of the community and the law, they will support it.

4. This committee will foment or participate in the political forum where community perspectives are aired.

5. Given the political aspect of this committee, they will not participate if it appears the community perspective is groundless or there is little public support. Several Representatives on this committee are very sympathetic to the banks perspective and may try to take over the opportunity to defend the banks.

6. Boston is Chairman Gonzales first chance to demonstrate his leadership and he could be persuaded that it was an excellent opportunity to do so. He also needs to consolidate his support on the committee and needs to demonstrate to the Representatives that he is capable of action. The chair is a majority elected position however that usually goes to the most senior representative from the majority part. But chairs who do not do well in the public eye are prone to removal. To the extent he is successful, he will increase his chances of keeping the chairmanship.

Representative Joseph Kennedy (16) (supportive)

1. The Kennedy family has a long electoral relationship with the state of Massachusetts with a legacy of one Kennedy President, United States Attorney General and a senior Senator. Their reputation is champions of liberal, grass roots, passionate support of the poor, minorities and other underclass populations. Representative Kennedy has yet to make his reputation as a Kennedy political heir to the peoples' political support. In fact, his record so far has been less than stellar, with a couple of unfortunate statements that have the public questioning his capacity. Boston is part of his electoral district and he will be vitally interested in this case.

2. He will view this action as wholly appropriate activity by the community to ensure its financial success. He will also view this as another case where powerful interests have prevailed over the needs of the community. To the extent he as an elected official represents the interests of this community, he will attempt to take a leadership position.

3. He will be wholly supportive.

4. Kennedy will support the public, political perspective of this case with public statement and possible hearings that could be highly embarrassing to the banks.

5. He will not publically support excessive actions as that term is interpreted by the general public.

6. Kennedy has to present himself to the electorate as one of the Kennedy family who is both effective and politically correct. Therefore, he would be particularly receptive to activities that support that need.

Community Investment Coalition (18) (supportive)

1 This coalition was explicitly formed by a consortium of community groups to address this issue. They view themselves as the peoples' representative in this area.

2. Although they agree with the BRA, they will view this issue are primarily theirs.

3. They should be supportive, but will suspicious of the BRA's motives as they view their organization as the primary owner of the issue.

4. They will support all actions if they are portrayed as a full partner and leader in the negotiations with the banks. They can be expected to undertake public demonstrations that are possibly illegal (trespassing) and make statements that are not necessarily supportable. To this extent, they could be considered to be the

"shock troops" that both raise the visibility of the issue and garner grass roots support.

5. They will actively oppose any action that does not include them as full partners and leaders.

6. Given the lengths they will go to demonstrate their interests, they might be portrayed as extremist and therefore not worth considering in the process. Public discussion of this would be extremely damaging to their cause. Also, this is a coalition of organizations that all deal with the BRA for financial funding or support with banks. Some of the organizations are more committed than others and there is a distinct possibility the effort will disintegrate if it is not supported.

Council (9) (supportive)

1. The council members are elected by districts within the city. Therefore many of the members represent (and are dependent on support from) the communities who have possibly been discriminated against. Certain council members have included this issue in their campaigns.

2. The council will wonder just what the fit is for the BRA to be heading this issue as the major responsibility for housing lies with the Public Facilities Department, which they also support and depend on to support their constituents.

3. The council should be able to gather a majority to support this process. However, this will be a political decision that is further hampered by their capability to act. The Boston system of governance is described as a "strong mayor - weak council" relationship where the council function largely as trustees for the city. Therefore, they have limited capacity to act and can do so only with extraordinary effort.

4. The council will support enforced over site opportunities and any actions that will bring additional resources into the community.
5. They will not support a wholesale attack on the banks, who are also very strong political actors in the community.
6. The council will welcome the opportunity to be seen as players and will resent being excluded.

Stakeholder Influence Network

A final mapping step is to construct a stakeholder influence network map that illustrates both formal and informal relationships (figure 13.7). This map shows that at least two potentials exist. The first is the bank network and the second is the community network. It also shows relationships between Dreier and the BRA to the community network. But, there are no relationships between Dreier and the BRA and the bank network.

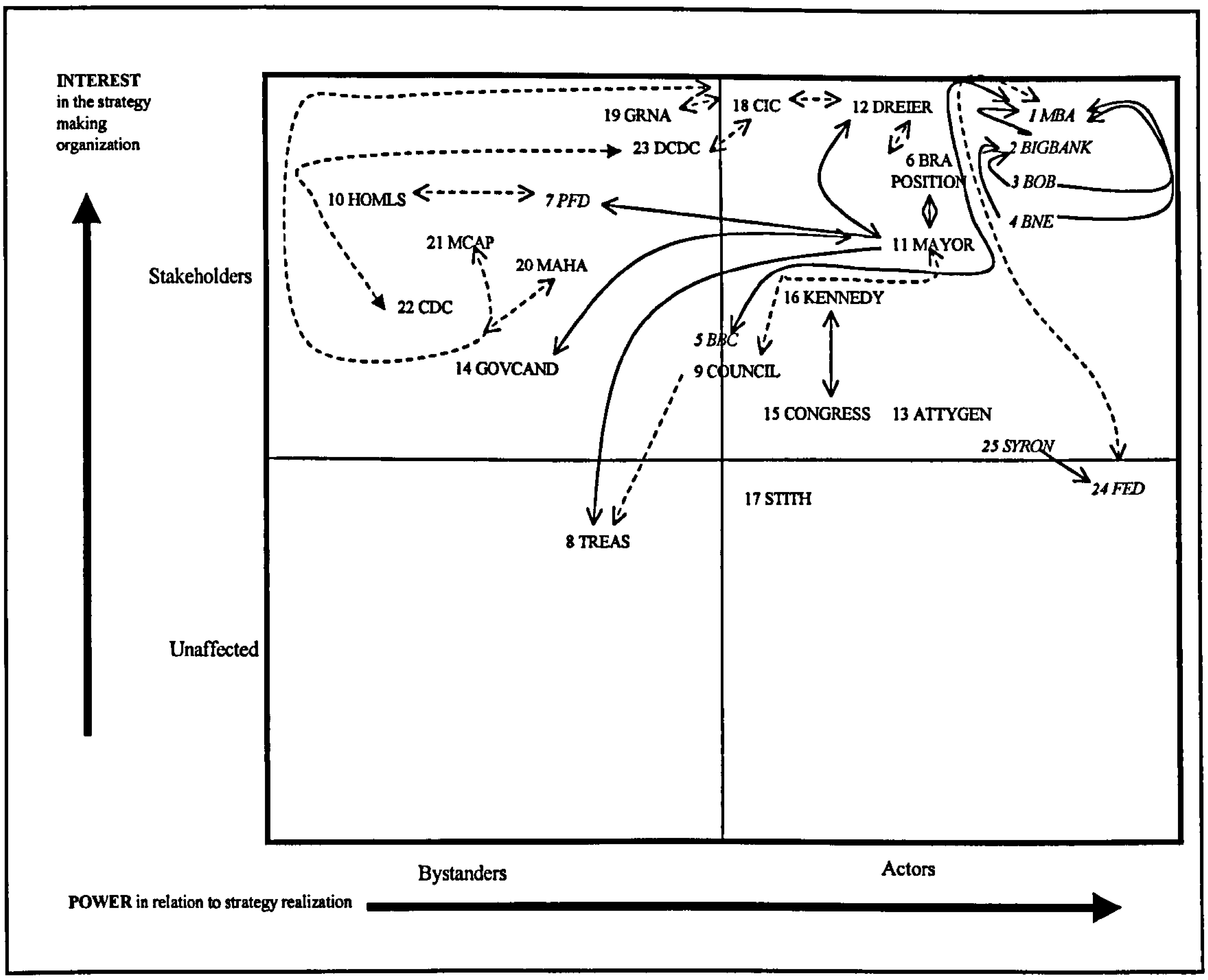


Figure 13.7 Stakeholder Influence Network (Eden and Ackermann)
Solid lines indicate a formal, mandated relationships
Dashed lines indicate informal relationships

Note: As it would help the reader to make sense of this map and it does no damage to Eden and Ackermann's process, I have included the Stakeholder Management strategies for the potential coalitions directly after the identity of each potential coalition.

The Stakeholder Network Influence Map reveals several potential coalitions.

1. Banking Coalition (MBA(1), BOB(3), BNE(4), BIG BANKS(2), BBC(5))

Strategy: Deal with each entity separately and do not let the MBA take over. Isolate the MBA by not agreeing to deal with them. As the BBC cannot help and may indeed hurt, due to revelations about its practices, ask them to keep a low profile.

2. Community Groups (CIC(18), GRNA(19), DCDC(23), CDC(22), MAHA(20))
Strategy: Encourage groups to work through CIC. Send all information through CIC. Form an alliance with CIC.

3. City (BRA(6), Dreier(12), Mayor(11), Council(9)
Strategy: Get Mayor to join publically. Appeal to his community interests. The Council is a two-edged sword that could hurt and help. As the Council will not give any more credentials than it already has, leave it alone.

4. An alliance of the community groups, city, CONGRESS(15), KENNEDY(16), ATTYGEN(13).

Stakeholder Management

The objective of this process is to strategize actions that will increase the power and/ or interest of stakeholders supportive of the community strategy, while reducing the power and/or interest of stakeholders in opposition. Eden and Ackermann largely accomplish this with that strategies listed above as they emerge from the stakeholder influence network map, but a further examination would be helpful regarding certain stakeholders.

- The alliance with the CIC(18) would bring in the rest of the community groups (GRNA(19), DCDC(23), MAHA(20), MCAP(21)) with the possible exception of the CDC(22), who would be threatened by being openly opposed to the banks.
- The coalition with city would further entrench the MAYOR(11) in support
- The banking coalition threat would be lessened by dealing with individual banks and excluding the MBA
- The MBA's(1) power would be lessened by refusing to allow them to become a "forum" for negotiations and therefore, they would be isolated from the power bases (the banks).
- Syron(25) would be encouraged to publically discuss the situation, which would reduce his capability to act behind the scenes, so his power (and the FEDs(24)) would both be reduced
- A coalition with KENNEDY(16) and CONGRESS(15) and the ATTYGEN(13) would increase the power of both sets of stakeholders.
- The BBC(5) would be taken out of the picture by an agreement to not include them in the examination if they would not support the other banks.

Role Play

A role play, examining the reactions of selected stakeholders would then be enacted. I have selected the general stakeholder categories listed above from the management and influence mapping exercises. For example, one group in the role play would represent the banking coalition discovered in the network influence mapping exercise. Within that group, four people would each represent the individual stakeholders of that coalition. It is important to note that these groups are not the real actors, but set of individuals "thinking" themselves into the role, which then would inform the strategies.

- The banking coalition would first attempt to the MBA(1) in its bid to be the forum, but would then focus on their own discussions with the coalition. The MBA(1) would attempt to establish a set of public meetings that would be attended by the banks in an attempt to take over the process. This would fail as it would be publically boycotted by the community interest coalition.
- CONGRESS(15, KENNEDY(16) and the ATTYGEN(13) would bulk at becoming a formal member of the alliance. They would agree to mutually recognizing and publically supporting each other however. Therefore a close communication system would be established that informed and publicized the work of each group with the others.
- Syron will resist all attempts to pin him down by making vague comments and retreating to the FED(24) position of impartial regulator.
- That community organizations will be favourable but not enthusiastic of the alliance at first. Once they see that the BRA(6), DREIER(12) and the MAYOR(11)

recognize this group as the community organization that gets all the information, they will support it more strongly.

- The BBC(5) will stay noncommital and will not make a deal. However, they will not join the other banks either, which is essentially the same as making a deal.

The role play's outcome would then be compared to the list of criteria (goals) where it would be discovered that this set of strategies would not result in the production of a designated community authority. The decision would be the same for this process as it was for Bryson's approach in that the decision would be to have the city Treasurer's Office (TREAS(8)) do this. Second, it would be apparent that the criteria (goals) regarding securing a standardized market process as a part of having a well-defined bank commitment (criteria (goal) number 2) would not be reached as there would be no centralized negotiation as the MBA forum had been removed. Further strategizing about this might result in a decision to postpone this issue, but to get a commitment during the bank negotiations from the banks that they would support this process.

Table 13.11 STRATEGIES THE GROUP WOULD CONSIDER:

IMPORTANT	LESS IMPORTANT	NOT RELEVANT
A Timely Outcome		
	A Well Defined Bank Commitment	
An Identified Funding Commitment		

IMPORTANT	LESS IMPORTANT	NOT RELEVANT
A Recognized Community Public Voice		
An Enforceable Agreement		
	A Designated Community Authority	
A Measurable Change in Banking Results		

The solution as defined by the Eden and Ackermann analysis is fairly clear. The BRA, with Dreier should proceed by first getting the mayor on board and developing their relations with the community organizations to form an alliance. They would then forge links with CONGRESS(15). KENNEDY(16), and the ATTYGEN(13) to mutually support each other. They then would approach the Bank of New England (BNE(4)), the Bank of Boston (BOB(3)) and the other Big Banks BIGBANK(2)) successively. Syron would still be encouraged to publically discuss the situation to establish his position. The result would be a tightly coordinated effort that would result in a multi pronged negotiation with the Big Banks, NBE and Bank of Boston(3). Hopefully, the BBC would be persuaded to work with the BRA to break attempts by the other banks to stonewall the initiative.

Extrapolated Results:

1. An identified funding commitment

A coalition of city and community groups would negotiate with the big banks who have the resources to solve many of the problems. One of the major failures of the original experience was relying on the Massachusetts Bankers Association to raise the funding from the banks. This approach would avoid this error by directly negotiating with the large banks and therefore would ensure for an identified funding commitment. Score: 9

2. An enforceable agreement

   The agreements would be with individual banks that could then be directly evaluated in terms of the bank's performance. This should help ensure that banks would be held accountable to the agreement. Score: 9

3. A measurable change in banking results

   Most of the resources actually contributed by the banks in the original agreement were from agreements enacted with individual banks. Therefore, little would be gained from this approach, except that the combined pressure of the coalition might encourage the banks to be a little more generous. The possible exception might be the individual commitment to locate branch banks in the neighbourhood. Score: 7

4. A well defined bank commitment

   Due to the individual agreements with the largest banks, the possibility for a standardized market process or an across the board bank commitment would be dramatically reduced. However, the commitment from the individual bank agreements would enhance the possibility that this issue would be taken up again under a second round of negotiations (perhaps with the MBA(1)). Score: 7

5. A designated community authority

   The original process resulted in the designation of the City Treasurer's office as the oversight authority. This process would not be able to do any better as the BRA would still lack the credentials to negotiate on behalf of the community or the city. Score: 5

6. A recognized community public voice

   The fact that the community organizations (CIC(18)) had been full partners in the alliance and had been part of the negotiated settlements would position them as the community spokespersons with both expertise (due to their involvement in oversight discussed above) and standing as the acknowledged community actors responsible for the success. Given that the CIC(18) already represents a coalition of community organizations, it is probable that this stakeholder would become the designated community public voice. This was the original intent for this organization which was undermined by the efforts of the MBA(1) and Stith(17). Score: 9

7. A timely outcome

   The question of a timely outcome is still one with this process. On one hand, the alliance would be able to mount a strong public appeal and pressure on the banks to settle. In addition, there would be little opportunity for the banks to obfuscate and deal with other parties as the key stakeholders were part of the alliance. On the other hand, the process of negotiation within the alliance regarding what the various stakeholders required would require more time. Overall, there appears that there would be a noticeable decrease in the time needed. Score: 7

Table 13.12 Scoring: Eden and Ackermann

Criteria	Nutt & Backoff	Bryson	Eden & Ackermann	Finn	Original Experience
ST=Short Term/LT=Long Term	ST/ LT	ST/ LT	ST/ LT	ST/ LT	ST/ LT
1. A timely outcome	8/ .8888	4/ .4444	7/ .7778		5/ .5556
2. A well defined bank commitment	3/ .6111	7/ .6111	7/ .7778		5/ ..5556
3. An identified funding commitment	9/ .7593	7/ .6111	9/ .8519		5/ .5556
4. A recognized community public voice	1/ .5370	7/ .6111	9/ .8519		5/ .5556
5. An enforceable agreement	9/ .6975	6/ .6204	9/ .8395		5/ .5556
6. A designated community authority	5/ .6420	5/ .5926	5/ .7284		5/ .5556
7. A measurable change in banking results	6/ .6605	8/ .6648	7/ .8099		5/ .5556
TOTAL:	41/ .6605	44/ .6648	53/ .8099		35/ .5556

THE FINN PROCESS

Given the origination of the Boston case was a decision by Coyle and Dreier to pursue an investigation into banking behaviour, this analysis would require two rounds of stakeholder analysis and mapping. First by Coyle and Dreier (and their staff) and second by the group they decide to convene (much like the Texas Education Agency case in Chapter 7).

Muse Exercise

Coyle and Dreier would begin by identifying the problem, issue or opportunity in terms of their hopes and fears. This process would be relatively straightforward as they would list their hopes and fears for the process:

Table 13.13 Hopes and Fears Exercise

Hopes

- Obtain funding from banks for city housing development
- Establish the bank's responsibility to city
- Develop a set of procedures all banks would follow to simplify process
- Banks would be accountable to city and people
- The process working with banks would be shortened
- Have an established pot of money to help communities
- Get banks back into minority neighbourhoods
- Banks listen when we speak
- Community listens when we speak

- Boston (including Coyle and Dreier) get a national reputation for producing for the community and low income and minority people in particular

Fears

- Banks will not respond
- Banks will deal with someone else (and we would be out)
- City and community do not back us
- Banks prove that they have been doing the right thing all along
- The pot of money is not big enough
- Banks do not perform over time
- This is a "special time" of public awareness and we blow it

At this point, a discussion could be joined that would further define the problem, issue or opportunity. In a large group, this would almost certainly be the case, but with essentially only two people involved, this process could be truncated.

The group members would then be asked: Given this description of the problem, who would have to be involved? Members would consider each individual hope and fear to evoke who would need to be involved.

Table 13.14 Using Hopes and Fears to Identify Stakeholders

Hopes

- Obtain funding from banks for city housing development

  -Stakeholder/s: BOB(3), NBE(4), BIG BANKS(2)

- Establish the bank's responsibility to city

  -Stakeholder/s: All banks would need to agree: MBA(1)

- Develop a set of procedures all banks would follow to simplify process

  -Stakeholder/s: MBA(1), ATTYGEN(13)

- Banks would be accountable to city and people

  -Stakeholder/s: Treas(8), PFD(7), ATTYGEN(13), CIC(18), GRNA(19), MAHA(20), CDC(22), DCDC(23)

- The process working with banks would be shortened

  -Stakeholder/s: MBA(1), BIG BANKS(2)

- Have an established pot of money to help communities

  -Stakeholder/s: BIGBANKS(2), BOB(3), NBE(4)

- Get banks back into minority neighbourhoods

  -Stakeholder/s: BIGBANKS(2), BOB(3), NBE(4), CIC(18), GRNA(19), MAHA(20), CDC(22), DCDC(23)

- Banks listen when we speak

  -Stakeholder/s: (All city representatives and agencies) Mayor(14), Council(9), PFD(7), Treas(8)

- Community listens when we speak

  -Stakeholder/s: CIC(18), GRNA(19), MAHA(20), CDC(22), DCDC(23), HOMLS(10)

- Boston (including Coyle and Dreier) get a national reputation for producing for the community and low income and minority people in particular

  -Stakeholder/s: Kennedy(16), Congress(15), Fed(24), Syron(25)

Fears

- Banks will not respond

  -Stakeholder/s: BIGBANKS(2), BOB(3), NBE(4)

- Banks will deal with someone else (and we would be out)

  -Stakeholder/s: CIC(18), PFD(7), STITH(17), MAHA(20), MAYOR(14)

- City and community do not back us

  -Stakeholder/s: CIC(18), PFD(7), STITH(17), MAHA(20), MAYOR(14), COUNCIL(9), DCDC(23), GRNA(19)

- Banks prove that they have been doing the right thing all along

  -Stakeholder/s: Fed(24), SYRON(25)

- The pot of money is not big enough

  -Stakeholder/s: BIGBANKS(2), BOB(3), NBE(4)

- Banks do not perform over time

  -Stakeholder/s: TREAS(8), ATTYGEN(13), FED(24)

- This is a "special time" of public awareness and we blow it

  -Stakeholder/s: NONE

Note: As there are no stakeholders identified with this fear, special attention needs to be paid to it as there is no stakeholder whose self interests would be served by its failure. Therefore, this item needs to be carried along as a "special" imprecation throughout the process.

Based upon this brainstorming effort, a preliminary Stakeholder Map could be constructed (Figure 13.8). It is not a good idea at the Proto stage to include influence mapping as these type of networks are best defined by the actors potentially involved in the organization for two reasons. First is the organizational learning that takes place with all actors appreciating and agreeing upon relationships between stakeholders. Second is the problem of getting something wrong and placing a potential organization member in the position of correcting it.

The next step in the process is defining the potential internal stakeholder group by identifying the actors most critical to the process. This potential group is defined as those parties within the inner circle who represent stakeholders who are considered to be key to the success of the effort. Two decisions would be made at this time. First is to decide whether the opposition stakeholders will be part of the organization (No). Second is to examine the stakeholders that cross (or are close to) the "line" as possibly also being internal stakeholders. They are the ATTYGEN(13), GRNA(19) and MAHA(20).

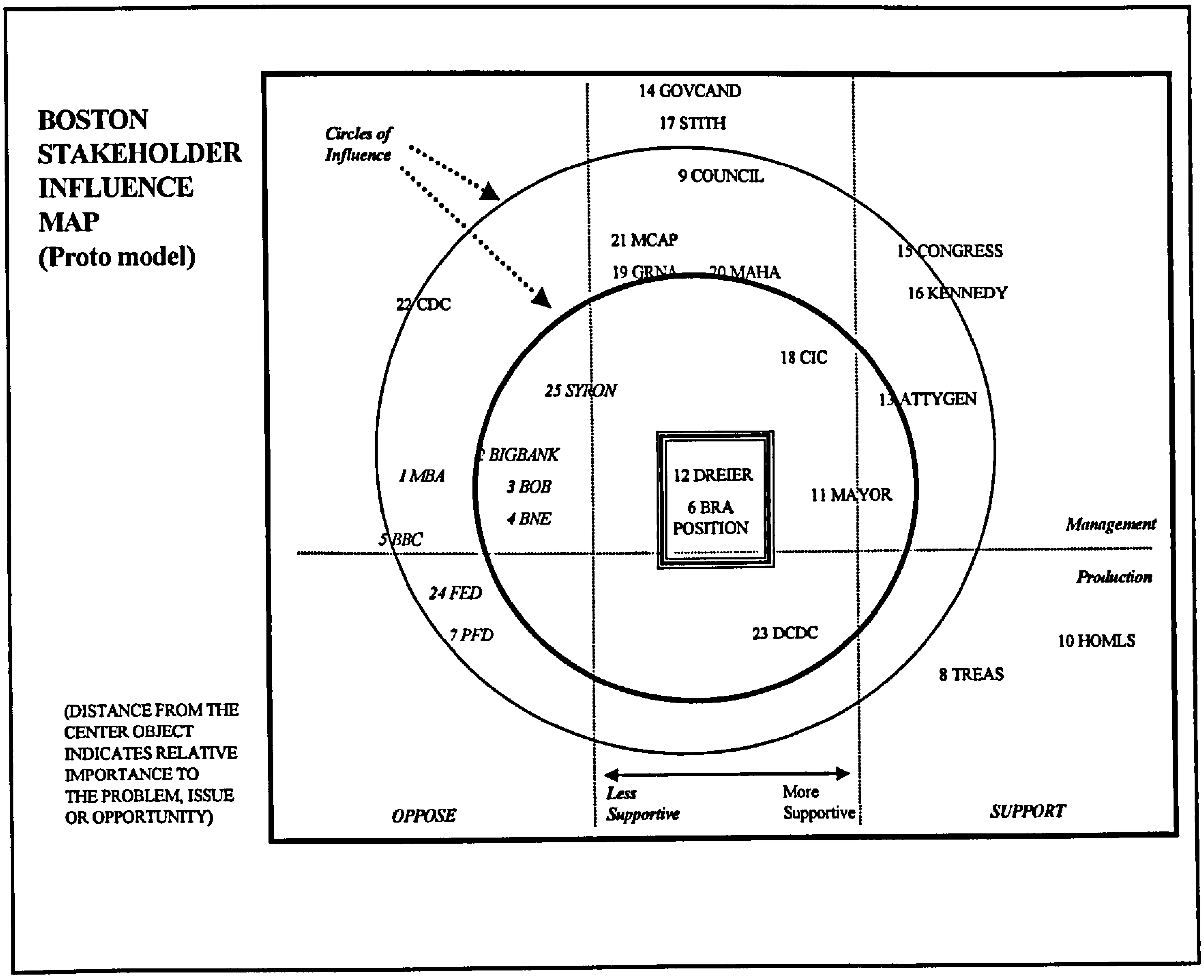


Figure 13.8

MAHA(20) and GRNA(19) would probably be ruled in as they are part of the CIC(18) and are local organizations. However, they might also be ruled out as organizations of only two neighbourhoods (of many) and inviting them in would alienate other groups such as MCAP(19), CDC(22) and MAHA(20). This in not a clear decision, so I have left them in. The ATTYGEN(13) might also be brought in (I will assume so).

A meeting would then be convened with the potential internal stakeholders to negotiate the relationships and actions necessary for success. At that meeting, the Muse process would be either recreated or summarized with additions from the group. The preliminary stakeholder map would be presented for agreement and/or changes. Stakeholder Influence mapping would be added (Figure 13.9).

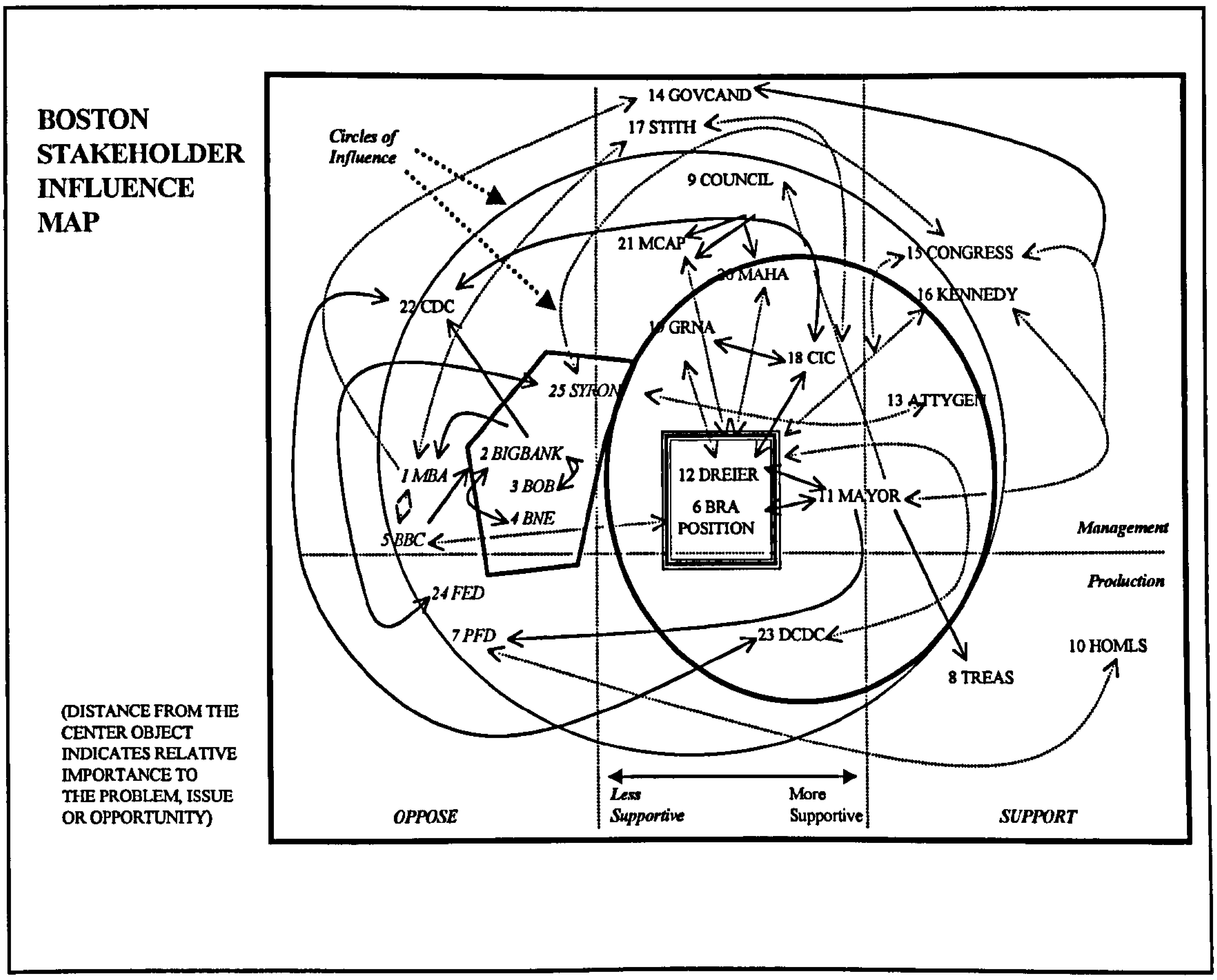


Figure 13.9

The group would then examine this map to ensure they have composed the organization with a high potential to implement a successful solution. This same process has helped define who they should be negotiating with also.

Table 13.15 below identifies the strategy ranking this process would evoke.

Table 13.15 STRATEGIES THE GROUP WOULD CONSIDER:

IMPORTANT	LESS IMPORTANT	NOT RELEVANT
A Timely Outcome		
A Well Defined Bank Commitment		
An Identified Funding Commitment		
A Recognized Community Public Voice		
An Enforceable Agreement		
A Designated Community Authority		
A Measurable Change in Banking Results		

The criteria (goal) a timely outcome was brought forward as a priority as discussed earlier.

From the map in figure 13.9 and table 13.15, it would appear that the best approach would be for the internal group to approach the BIG BANK(2), Bank of Boston(3)(3), Bank of New England (4) to negotiate an agreement and with SYRON(25) to deal with issues of research, regulation and enforcement. Links between the internal stakeholder group, CONGRESS(15) and KENNEDY(16) would be established. Any problems with the PFD(24) would be dealt with by the Mayor. Any problems with the CDC(22) and other community organizations would be dealt with by internal stakeholders with relationships to those parties.

Extrapolated Results:

1. An identified funding commitment

   A coalition of city, state government and community groups would negotiate with the big banks who have the resources to solve many of the problems. One of the major failures of the original experience was relying on the Massachusetts Bankers Association to raise the funding from the banks. This approach would avoid this error by directly negotiating with the large banks and therefore would ensure an identified funding commitment. Score: Nine

2. An enforceable agreement

   The agreements would be with individual banks that could then be directly evaluated in terms of the bank's performance. This should help ensure that banks would be held accountable to the agreement. The coalition would be available to ensure continued enforcement. Score: Nine

3. A measurable change in banking results

   Most of the resources actually contributed by the banks in the original agreement were from agreements enacted with individual banks. Therefore, little would be gained from this approach, except that the combined pressure of the coalition might encourage the banks to be a little more generous. The possible exception might be the individual commitment to locate branch banks in the neighbourhood. Score: 7

4. A well defined bank commitment

   Due to the individual agreements with the largest banks, the possibility for a standardized market process or an across the board bank commitment would be dramatically reduced. Whoever, the connection of the negotiated agreement and the

MBA as the stakeholder was discovered by the group in the stakeholder development process. Whether this connection would be enough to focus these efforts toward fruition, is not at all clear. Therefore, this process will be scored as no better than the original. Score: 5

5. A designated community authority

The potential for a designated community authority that would report banking activities to the internal stakeholders would be ensured as each stakeholder would want that report for different reasons. The community groups would want to know what has been done for their constituents. The attorney general's office would be concerned with the enforcement of state laws and the city government would want to know what development activity had taken place. This combination of interests would probably require a negotiated settlement that would create or endow an entity with that responsibility. However, this is an extrapolation that is based on many variables (many of which could not happen), so the likelihood of the event actually happening is certainly there, but it would by no means be considered a sure thing. Score: 6

6. A recognized community public voice

The fact that the community organizations had been full partners in the negotiated settlements would position them as the community spokespersons with both expertise (due to their involvement in oversight discussed above) and standing as the acknowledged community actors responsible for the success. Given that the CIC(18) already represents a coalition of community organizations, it is probable that this stakeholder would become the designated community public voice. This was the original intent for this organization which was undermined by the efforts of the MBA(1) and Stith(17).

7. A timely outcome

The question of a timely outcome is still one with this process. On one hand, the coalition would be able to mount a strong public appeal and pressure the banks to settle. In addition, there would be little opportunity for the banks to obfuscate and deal with other parties as the key stakeholders were part of the alliance. On the other hand, the process of negotiation within the alliance regarding what the various stakeholders required would require more time. In addition, the coalition would be constantly reminded of this issue due to the lack of stakeholder identity with it. Overall, there appears that there would be a noticeable decrease in the time needed. Score: 7

Table 13.16 Scoring: Finn

Criteria	Nutt & Backoff	Bryson	Eden & Ackermann	Finn	Original Experience
ST=Short Term/ LT=Long Term	ST/ LT	ST/ LT	ST/ LT	ST/ LT	ST/ LT
1. A timely outcome	8/ .8888	4/ .4444	7/ .7778	7/ .7778	5/ .5556
2. A well defined bank commitment	3/ .6111	7/ .6111	7/ .7778	5/ .6667	5/ ..5556
3. An identified funding commitment	9/ .7593	7/ .6111	9/ .8519	9/ .8148	5/ .5556
4. A recognized community public voice	1/ .5370	7/ .6111	9/ .8519	9/ .8148	5/ .5556
5. An enforceable agreement	9/ .6975	6/ .6204	9/ .8395	9/ .7994	5/ .5556
6. A designated community authority	5/ .6420	5/ .5926	5/ .7284	6/ .7160	5/ .5556
7. A measurable change in banking results	6/ .6605	8/ .6648	7/ .8099	7/ .7846	5/ .5556
TOTAL:	41/ .6605	44/ .6648	53/ .8099	52/ .7846	35/ .5556

Conclusion

The four stakeholder approaches were applied to the Boston case and results were extrapolated, based on the process and estimated potentials for that stakeholders would react in a rational and predictable manner. Each process was then evaluated in terms of the seven criteria. A scoring process was employed that recognized both the independence and inter-dependence between the seven criteria.

SECTION FIVE
OBSERVATIONS, REFLECTIONS AND FUTURE RESEARCH

This section contains reflections on the process and the evaluations emerging from sections three and four as well as a discussion of what possible next steps are in terms of process application, research and promulgation of the learning. The bibliography and four appendices are also included. Appendix A is the Boston Mortgage Study I produced as an analytical piece for the Boston Redevelopment Authority, which elaborates the Boston case and gives national context to the issue. Appendix B is the Public Schools questionnaire developed by Bryson and Finn, which was used as a recording tool for research on the process. Appendix B is the book chapter written by Bryson, Ackermann, Eden and Finn that develops the oval mapping process commonly used by the authors. Appendix D contains the criteria for successful outcomes that was developed independently as a set of community organization and strategy goals.

CHAPTER 14

OBSERVATIONS AND CONCLUSIONS

INTRODUCTION

This chapter reflects on the learning from the evaluation chapter (chapter 13) and develops further comparisons of the four approaches. Some discussion is generated regarding the limitations of the case in terms of its general application due to a potential conflict of goals. Finally, possible next steps are discussed regarding future directions of this research and potential applications for the Finn process.

What has been learned from the Boston case and Evaluation of Stakeholder Approaches:

- While the Boston experience was successful, in retrospect and after applying the four stakeholder approaches, there are certain aspects of the experience that come to the fore. First is the apparent conflict between one of the goals versus the others that were analysed as shortcomings. That is the problem of negotiating for both resources and a common approach for the community to all banks, as the processes used to accomplish these goals appear to be mutually exclusive. If the communities first objective is to go for maximum resources, it would appear that negotiating with each of the larger banks is the best approach. If on the other hand, the primary objective is to negotiate a common approach for the community to all banks, then it would appear that negotiating with the Massachusetts Bankers Association is the wisest choice. The problem is of course that the banks would prefer to have the MBA negotiate for them for the many reasons already discussed previously, which would allow the banks to "hide" behind the MBA if given a chance.

Therefore, it would have been better to decide in advance which option to pursue. Eden and Ackermann's process picked this up and they were able to deal with it by adopting an alternative negotiating timetable.

- Both the unweighted and weighted scoring for the evaluation suggests that all the processes will out perform the original outcome. Eden and Ackermanns' score is the highest, which suggests it might have been the best approach for this case. Finn's score is quite close to Eden and Ackermanns.' However, the difference in scoring between all four processes is relatively small and no greater emphasis should be put upon it other than what is mentioned above.

Evaluative methods must be understood and used in the context they were developed. The method employed within this thesis was designed to help the reader understand the approaches relative to one another within the narrow and constrained context of this particular case. Indeed, it would be an abuse of the method to presume the decision regarding the efficacy of any of the approaches could be derived solely from the math. This is especially the case when the conflict between two of the goals is examined. However, if the concept of the meta-organization is accepted, with its emphasis on boundary definitions and organizational learning, which supports the precept that organizations really do operate as transitional objects, then the higher scores by Eden and Ackermann and Finn would follow as these two approaches embrace that assumption.

- It is also observable that any of the stakeholder approaches would have yielded a better outcome than the original. This is an important observation because the strategists within this case are purported to be some of the best in the area of community politics. Dreier in particular has made a name for himself in this area. This is an important finding as it lends to the credence of attending to stakeholders as an important component of strategic planning and management approaches. While this one case cannot be construed as absolute proof of the efficacy of stakeholder approaches, it does indicate there may be real utility regarding the incorporation of them in strategic planning and management processes.

- The Finn process in particular as the one proposed and evaluated against proven processes in this evaluation has demonstrated itself as a viable approach... at least in terms of this particular examination. Therefore, the underlying theory may also be credible. What is also clear from this evaluation is that the approach and theory will benefit from further testing.

- The Finn process also has proved wanting against two of the stakeholder approaches. First, the Eden and Ackermann approach with its extensive analysis and testing of strategies has ably demonstrated the strengths of that approach. The Finn process could benefit from the careful examination and adoption of those modules. Second is the Bryson approach, which also was able to explore contingencies that the Finn process was not. Again, the Finn process could benefit from a careful examination and adoption of those modules. While the Finn process stands on its own, it could certainly benefit from the evaluation, management and implementation processes included in all three of the other approaches.

- While this thesis evaluated the efficacy of the four approaches in terms of their ability to affect the Boston experience, it was not the intent of the evaluation to prove any of the processes are <u>better</u> than the others. Rather the intent is to describe each of the processes and implement them in a manner that allows the reader to evaluate the processes and then select all or parts of the processes so they can be used in the particular situation facing the reader. As each situation develops, it requires an approach that is dependent upon the organization, the skill set of facilitator or planner, the planning and management resources available and the particular mix all these ingredients manifest as they intersect. Table 14.1 (below) was constructed to further help the reader evaluate the attributes of the four processes. This table was developed over the writing of this thesis. As I reviewed and evaluated each stakeholder approach, I noted perceived differences between them, which resulted in the attributes listed. As a final exercise, I then filled in the response for each stakeholder approach to the attribute. This allowed for the most informed decision as all approaches had been developed, discussed and evaluated and therefore could be compared. In some instances, I still could not assert whether a particular process answered the question posed by the attribute. Those instances were identified with a "?" mark. It should be noted that this comparative evaluation is limited in two important ways. First is the responses represent informed observations and are not formally developed. Second is that the responses themselves are binary (Yes or No), while each approach can vary substantially in terms of how completely it does or does not fulfill the requirement of a particular attribute. I could have applied some type of scalar approach, but responses to the attributes are ambiguous enough as it is, which would call into question a more refined approach.

Table 14.1: Attribute: The Approaches address issues related to or where:	Nutt and Backoff	Bryson	Eden and Ackermann	Finn
1. Stakeholders control resources	Y	N	Y	Y
2. Stakeholder Actions are issue driven	N	Y	?	Y
3. Stakeholder analysis is used for targeting and strategizing due to limited time and resources	Y	N	Y	Y
4. Joint commitments must exist or need to be built	N	N	N	Y
5. Stakeholder Analysis is used in the strategic assessment and implementation phases	Y	N	Y	N
6. Stakeholder Analysis is used with resource analysis	Y	N	?	Y
7. Everyone is a potential stakeholder	N	Y	N	Y
8. The approach deals with barriers to action can be pervasive	Y	Y	Y	Y
9. The approach realizes ubiquitous ownership of problem/solution	N	Y	N	Y
10. Fulfilling stakeholder expectations are the key to success	N	Y	N	Y
11. The approach explores what stakeholders think of organization	N	Y	Y	Y
12. Stakeholder analysis is viewed as a mean to the organization's objectives	Y	N	Y	N

Table 14.1: Attribute: The Approaches address issues related to or where:	Nutt and Backoff	Bryson	Eden and Ackermann	Finn
13. Stakeholder relations and management is an emergent process based upon the organization's needs	N	Y	Y	Y
14. The organization remains autonomous in terms of aspiring to its objectives	Y	Y	Y	N
15. Stakeholder relations is an emergent process	N	?	?	Y
16. The approach is focussed on the success of organization's strategies	Y	N	Y	N
17. The approach identifies "who relates to whom" and who will contact whom	N	N	Y	Y
18. The approach encourages an efficient use of resources	Y	N	Y	Y
19. Stakeholders necessary to success are involved	Y	Y	Y	Y
20. Stakeholders necessary to success are dealt with	N	?	Y	Y
21. The approach increases the probability of a successful outcome	Y	Y	Y	Y
22. Important antagonists are dealt with	?	N	Y	N
23. Important neutral stakeholders are persuaded	Y	N	Y	Y

Table 14.1: Attribute: The Approaches address issues related to or where:	Nutt and Backoff	Bryson	Eden and Ackermann	Finn
24. Less important stakeholders do not command issue, action or resources	Y	N	Y	Y
25. Potential supporters are mobilized	Y?	Y	Y/?	Y
26. Within the process, the organization's objectives transcends all others	Y	N	Y	N
27. Win - Win scenarios are developed	N	Y	N	Y
28. Strategy is efficient in terms of time for the organization	Y	?	Y	Y
29. The organization has the potential to take on problems larger than itself	N	Y	N	Y
30. The stakeholder approach is used to formulate the problem	N	Y	N	Y
31. The stakeholder approach is used to assess and implement strategies	Y	N	Y	N
32. Stakeholders were included in the problem, issue or opportunity definition	N	Y	N	Y
33. Stakeholders without power, but will be impacted are included	N	Y	N	N

Table 14.1: Attribute: The Approaches address issues related to or where:	Nutt and Backoff	Bryson	Eden and Ackermann	Finn
34. Stakeholders without power, but will be impacted are accounted for	Y	Y	Y	Y
35. The approach identifies potential coalitions	N	N	Y	Y
36. The approach accounts for long term implications of stakeholder relations	N	Y	N	Y
37. The process requires facilitation	Y	Y	Y	N

It apparent from the comparisons listed above that each approach has its own presumptions and attributes. For example, the Nutt and Backoff process provides an excellent tool set to quickly determine stakeholder in terms of the characteristics of interest, power and resources, which would be quite helpful as a spot "check" during the strategic planning process to ensure strategies and actions are relevant to the problem, issue or opportunity considered.

The Finn and Bryson approaches would appear to be more applicable to the public and nonprofit sectors than the Eden and Ackermann approach as they tend to encourage a more inclusive attitude regarding stakeholders, which appears to be one of the identified attributes of that sector. In addition, the Bryson and Finn approaches also seek to promote compromise and develop strategies based upon long term consequences of the organization's behaviour. This can be particularly important where organizations must collaborate or cooperate over the long term.

The Eden and Ackermann approach appears to be the most "strategic" of the approaches as it encourages active consideration of implementation strategies, which certainly should increase potentials for success. In addition, Eden and Ackermann have devised a process that appears to embrace the concept of organizational learning in a manner (kyros intervals) that allow that learning to be directed and encouraged. The Finn approach also has that potential, but it is poorly developed to date.

The Finn approach and to a certain extent, the Eden and Ackermann approach appear to be designed to address the challenges of the evolving meta-organizations as they become apparent. The Finn approach directly addresses the challenge, while the Eden and Ackermann approach addresses it as an emergent condition out of the stakeholder analysis and role play activities. The Bryson approach has this same potential if the role play exercise is utilized. However, it is clear that the concept of an organization as a transitional object is one that needs much more consideration before a more rigorous evaluation should be considered.

The Finn approach alone does appear to answer one need that was set forth in the introductory chapter of the thesis. Namely to develop a method that could be employed by public and nonprofit organizations who lack the means to employ sophisticated planning processes and the facilitator support they require. No other approach appears to be able to operate without a facilitator.

Next Steps

Based upon the evaluative findings within this thesis, I will be continuing my research regarding the Finn approach along four tracks. First is the continuing application of the approach with modifications as they emerge from the research method developed. Where and when appropriate, I will continue to record, compare and reflect upon the results in an attempt to further comprehend and refine the process. In particular, I intend to further develop the theory and rationale for the inclusion of stakeholder processes with existing organizations who have initially resisted the approach. Treating an organization as a "transitional object" has potentials that are yet to be discovered.

Second is to further develop the overall process as a more complete strategic planning and management approach. The process would certainly benefit from the inclusion of tools and methods to further develop and implement strategies and actions such as the ones discussed in the three other approaches. The Bryson strategy development approach appears to be both complimentary and powerful in terms of strategy formulation. The Eden and Ackermann approach contributes a powerful learning organization perspective that includes strategy testing and implementation process as well as a management opportunity. I intend to begin to do what I have encouraged the reader to do. Namely to incorporate what appear to be the strengths of each of the processes into an approach the will increase the potentials for success of an organization, given its limitations and my own.

Third is to further investigate the changing "transitional nature" of organizations and to contribute to the growing theory supporting them. For example, I have observed that large organizations are continuing to "sub-divide" their processes into even more distinct and relatively autonomous parts. These parts are responsible to the overall organizational intent in terms of producing some component that is important to the organization in a manner that is both timely and specific. This process seems to mimic certain established production process developments regarding the "just in time" supply of parts and resources where human capital is managed similarly. While working with the National Institute of Health (NIH) in 1994, I designated such organizations as being "Just In Time Organizations" (JITOs) which employ "Just In Time Resources" (JITRs) and "Just In Time Employees" (JITEs). Organizations (or subsets thereof) of this sort will be highly focussed and may or may not be part of the corporate body (out sourced). These type organizations will be successfully managed as both a group of interlocking mechanisms, which can be quickly replaced as needed and as a group of stakeholders whose interests must also be served. Stakeholder analysis, influence mapping and management will contribute to the success of these type organizations. Indeed, these approaches may be necessary to the long term success as each stakeholder group (JITO) will be more autonomous and self interested.

A second issue that has emerged from this process is the question of whether there are "primary sets" of goals that are endemic to most organizations that can be identified, included and attended to as formal part of any strategic planing and management process. One potential goal for this set would be the "time" issue as it developed in the Boston case. Others of this sort may also exist, which need to be discovered and perhaps, included.

Fourth is the promulgation of a process to communities who to date have not been able to afford the services necessary to promulgate sophisticated strategic planning and management as is exemplified in the three other stakeholder process discussed. On many occasions (including the Boston case) I have observed the community organizations in an competitive disadvantage in terms resources marshalled by private and public sector organizations they have had to deal with. As I stated in the introduction, one of the reasons for my interest in this area was the inability of community organizations to develop comprehensive strategic planning due to limited resource, lack of organizational hierarchies (they are mostly comprised of volunteers) and the collaborative requirements (many problems, issues or opportunities taken on by these type groups require collaboration). The social costs those deficits are huge and could be mitigated by the application of strategic planning and management techniques. To that end, I am planning to publish at least a "how to" workbook and possibly a full text explaining the process. I have already used this process with two local community organizations with good results and intend to employ it with some additional organizations to further understand the potentials and limitations of the process.

CONCLUSION

The development of the Finn process and the subsequent evaluation of four stakeholder processes have furthered the argument for the efficacy of stakeholder approaches. This thesis should help the reader understand their value and to develop an approach that will increase potentials for a successful outcome, given their specific needs, resources and skills. The Finn process demonstrates some potential to be used by organizations who to date have been unable to afford the services (and gain the benefits of) sophisticated stakeholder based strategic planning and management approaches.

There are several opportunities to carry this research forward in terms of further development of the Finn process; incorporation of the Finn process into other strategic planning and management approaches; development of organizational theory regarding empirical changes in organizations as they are examined from a stakeholder perspective; and the publication of materials to help communities strategize, plan and manage.

Bibliography

Abrahamsson, Bengt, *Why Organizations?*, London, England: Sage Publications, 1993.

Abrahamsson, Bengt, *The Logic of Organizations*, London, England: Sage Publications, 1973.

Ackoff, Russel L., *Redesigning the Future: A Systems Approach to Societal Problems*, New York: Wiley, 1975.

Ansoff, H. I. *Implanting Strategic Management.* Englewood Cliffs, N.J.,: Prentice Hall 1984.

Argyris, C., and Schon, D. *Organizational Learning: A Theory of Action Perspective.* Reading, Mass.: Addison-Wesley, 1978

Arrow, Kenneth, J., *the limits of organization*, New York: W. W. Norton and Company, 1974.

Barker, Sir Ernest, *Social Contract*, London: Oxford University Press, 1960

Bardach, E. *The Implementation Game.* Cambridge, Mass

Bryson, J. M. *Strategic Planning for Public and Nonprofit Organizations: A Guide to Strengthening and sustaining Organizational Achievement.* San Francisco: Josey-Bass, 1995.

Bryson, J. M. *Strategic Planning for Public and Nonprofit Organizations: A Guide to Strengthening and sustaining Organizational Achievement.* San Francisco: Josey-Bass, 1988

Bryson, J. M.; Ackermann, Fran; Eden, Colin; Finn, Charles B., "Critical Incidents and Emergent Issues in Managing Large Scale Change," In Kettl, Donald F., and Milward, H. Brinton - Editors, *The State Of Public Management*, Baltimore: The Johns Hopkins University Press, 1996.

Bryson, J. M. and Crosby, Barbara C. Leadership for the Common Good: Takling Public Problems in a Shared Power World. San Francisco: Jossey-Bass, 1992.

Bryson, J. M., Ackermann, F. A., Eden, C. E. and Finn, C. B. "Using the Oval Mapping Process to Identify Strategic Issues and Formulate Effective Strategies." In Bryson, J. M. *Strategic Planning for Public and Nonprofit Organizations* (Revised Edition), San Francisco: Jossey-Bass, 1996.

Bryson, J. M., Freeman, R. E., and Roering, W. D. "Strategic Planning in the Public Sector: Approaches and Directions." In B. Checkoway (ed.), *Strategic Perspectives on Planning Practice.* Lexington, Mass.: Lexington Books, 1986

Bryson, J. M., and Roering, W. D. "Initiation of Strategic Planning by Governments" *Public Administration Review*, 1988 48, 995-1004.

Buchholz, R. A. *Business Environment and Public Policy.* Englewood Cliffs, N.J.: Prentice Hall, 1982.

Cameron, K. S. "Effectiveness Paradoxes: Consensus and Conflict in Perceptions of Organizational Performance." *Management Science*, 1986, 32 (5), 539-553.

Campbell, J., M. Dunnette, E. Lawler, and K. Weick, *Managerial Behavior, Performance and Effectiveness*, New York: McGraw-Hill, 1970.

Cobb, R. W., and Elder, C. D. *Participants in American Politics: The Dynamics of Agenda Building.* Newton, Mass.: Allyn & Bacon, 1972.

Cohen, M. D., March, J. G., and Olsen, J. P. "A Garbage Can Model of Organizational Choice," *Administrative Science Quarterly*, 1972, 17, 1-25.

Clawson, V., "The Role of the Facilitator in Computer-Assisted Environments: A Critical Incidents Study" Ph.D. dissertation, Walden University, 1992.

Clegg, Stewart R., Cynthia Hardy and Walter R. Nord (Editors) *Handbook of Organization Studies*, London: Sage Publications Ltd, 1996.

Eden, C. E. "Using Cognitive Mapping for Strategic Options Development and Analysis (SODA)." In J. Rosenhead (ed.) *Rational Analysis for a Problematic World.* New York: Wiley, 1989.

Eden, C. E., Ackermann, F., and Cropper, S. "The Analysis of Cause Maps." Journal of Management Studies, 1992, 29(3), 309-324.

Eden, C. E., and Huxham, C. "Action Oriented Strategic Management." *Journal of the Operational Research Society*, 1988. 39(10), 889-899.

Eden, C. E., and Huxham, C. "Action Research for the Study of Organizations." *Handbook of Organization Studies*, London: Sage Publications Ltd, 1996.

El Sawy, O. A. *Exploring Temporal Perspectives as a Bias to Managerial Attention.* Los Angeles: Center for Futures Research, Graduate School of Business Administration, University of Southern California, 1985.

Finn, C. B., "Utilizing Stakeholder Strategies to Ensure Positive Outcomes in Collaborative Processes." *Pursuing Collaborative Advantage.* London: Sage, 1996.

Finn, C.B., "Comments to Hearing Testimony on CRA," *Hearing before the Subcommittee on Housing and Urban Affairs of the Committee on Banking Housing, and Urban Affairs, United States Senate*, Washington D.C.: Government Printing Office, 1992.

Finn, C. B., *Mortgage Lending in Boston's Neighborhoods: A Study of Bank Credit and Housing*, Boston: Boston Redevelopment Authority, 1989.

Flannagan, J. "The Critical Incident Technique" *Psychological Bulletin* 51, (July, 1954) No.4: 327-358, 1954.

Freeman, R. E. *Strategic Management: A Stakeholder Approach.* Boston: Pittman Press, 1984.

Handy, Charles, *The Age of Unreason, London*, England: Century Business, 1993.

Handy, Charles, *Understanding Organizations*, London, England: Penguin Books, 1993.

Hanafin, Teresa M., "Bank Machines, Branch Office Scarce in Boston Minority Neighborhoods." *Boston Globe*, February 7, 1989.
Hardin, Garrett, *Living Within Limits*, New York: Oxford University Press, 1993.

Huxham, Chris, Editor, *Creating Collaborative Advantage*, London: Sage, 1996.

Jantsch, E. *Design for Evolution: Self-Organization and Planning in the Life of Systems.* New York: Braziller, 1975.

Katz, Daniel and Kahn, Robert L. *The Social Psychology of Organizations, 2nd ed.* New York: John Wiley and Sons, 1978.

Kelly, George A. A Theory of Personality, The Psychology of Personal Constructs, New York: W. W. Norton & Company, Inc. 1955.

Kingdon, J. R. *Agendas, Alternatives, and Public Policies.* (Revised Edition) Boston: Little, Brown, 1995.

Kolb, D. A. "Problem manaagement: Learning from Experience." In S. Srivastva and Associates, *The Executive Mind: New Insights on Managerial Thought and Action.* San Francisco: Jossey-Bass, 1983.

Lindblom, C.E., "The Science of 'Muddling Through,'" *Public Administration Review*, 1959: 79-88.

Lindblom, C.E., *The Policy-Making Process*. Englewood Cliffs, N.J.: Prentice Hall, 1968.

Lewis, C. W. *The Ethics Challenge in Public Service: A Problem Solving Guide.* San Francisco: Jossey-Bass, 1991.

Louis, M. R. "Organizations as a Culture Bearing Milieux," In L. R. Pondy & others (Editors), Organizational Symbolism, Greenwich, CT: JAI Press, 1983.

Lukas, Anthony J., *Common Ground*, New York: Vintage Books, a division of Random House, 1985.

Mason, R. "A Dialectic Approach to Strategic Planning." *Management Science*, 1969, 15 (8), B403-B414.

Mason, R. O., and Mitroff, I. I. *Challenging Strategic Planning Assumptions*. New York: Wiley-Interscience, 1981.

Mintzberg, H., *Power in and Around Organizations*, Englewood Cliffs, New Jersey: Prentice-Hall, 1983.

Mintzberg, H., "The Rise and Fall of Strategic Planning." *Harvard Business Review*, 1994a, Jan./Feb., pp. 107-144.

Mintzberg, H., *The Rise and Fall of Strategic Planning*. New York: Free Press, 1994b.

Mitroff, I. I., and Emshoff, J. R. "Pn Strategic Assumption-Making: A Dialectical Approach to Policy and Planning." *Academy of Management Review*, 1979, 4 (1), 1-12.

Nutt, P. C. *Making Tough Decisions: Tactics for Improving Managerial Decision Making*. San Francisco: Jossey-Bass, 1989a.

Nutt, P. C. , and Backoff, R. W. "Strategic Issues as Tensions." *International Journal of Behavioral Science*, 1992.

Olsen, J. B. and Eadie, D. C. The Game Plan: Governance with Foresight. Washington D. C.: Council of State Planing Agencies, 1982.

Pareto, Vilfredo, *Rise and Fall of the Elites, and application of theoretical sociology*, 1901.

Pareto, Vilvredo, *Mind and Society*, 1916.

Perry, J. L., and Rainey, G. G. "The Public Private Distinction in Organization Theory: A Critique and Research Strategy." *Academy of Management Review*, 1988, 13 (2) 182-201.

Pfeffer, J., and Salancik, R. *The External Control of Organizations: A Resource Dependence Perspective*. New York: Harper Collins, 1978.

Quinn, R. E. Beyond Rational Management: Mastering the Paradoxes and Competing Demands of High Performance. San Francisco: Jossey-Bass, 1988.

Reason, Peter, *Human Inquiry In Action*, London: Sage Publications Ltd, 1988.

Rainey, H. G., Backoff, R. W., and Levine, C. H. "Comparing Public and Private Organizations." *Public Administration Review*, Mar. -Apr. 1976. pp. 233-244.

Schein, E. H. *Organizational Culture and Leadership*. (2nd edition) San Francisco: Jossey-Bass, 1992.

Schon, Donald, *Beyond the Stable State*, Harmondsworth: Penguin, 1971.

Senge, P. M. *The Fifth Discipline: The Art and Practice of the Learning Organization.* New York: Doubleday, 1990.

Smith, Adam, The *Wealth of Nations*, 1776; Reprint, New York: Modern Library, 1937.

Strauss, Anselm, Corbin, Juliet, *Basics of Qualitative Research*, Newbury Park, California: Sage Publications, 1990.

Sussman, L., and Herden, R. P. "Dialectic Problem Solving." *Business Horizons*, Fall, 1985.

Takagi, Calvin Y., Some Critical Behaviors Required In Casework Practice, (Thesis) University of Minnesota, 1958.

Trist, Eric, "A Concept of Organizational Ecology," Australian Journal of Management, Bolume 2, 1977 pp. 162-175.

Van de Ven, A. H., and Poole, M. S. "Paradoxical Requirements for a Theory of Organizational Change." In R. Quinn and K. Cameron (eds.), *Paradox and Transformation: Toward a Theory of Change in Organization and Management.* New York: Ballinger, 1987.

Weisbord, Marvin R. and 35 International Coauthors, Discovering *Common Ground*, San Francisco, CA: Berret-Koehler Publishers, 1992.

Weisbord, Marvin R. and Janoff, Sandra, *Future Search*, San Francisco, Ca,: Berrett-Koehler Publishers, 1995.

Weick, Carl E., *The Social Psychology of Organizing. 2nd edition*, Reading, Massachusetts: Addison-Wesley Publishing Co.

Weick, Carl E., *Sensemaking in Organizations*, Thousand Oaks, California: Sage, 1995.

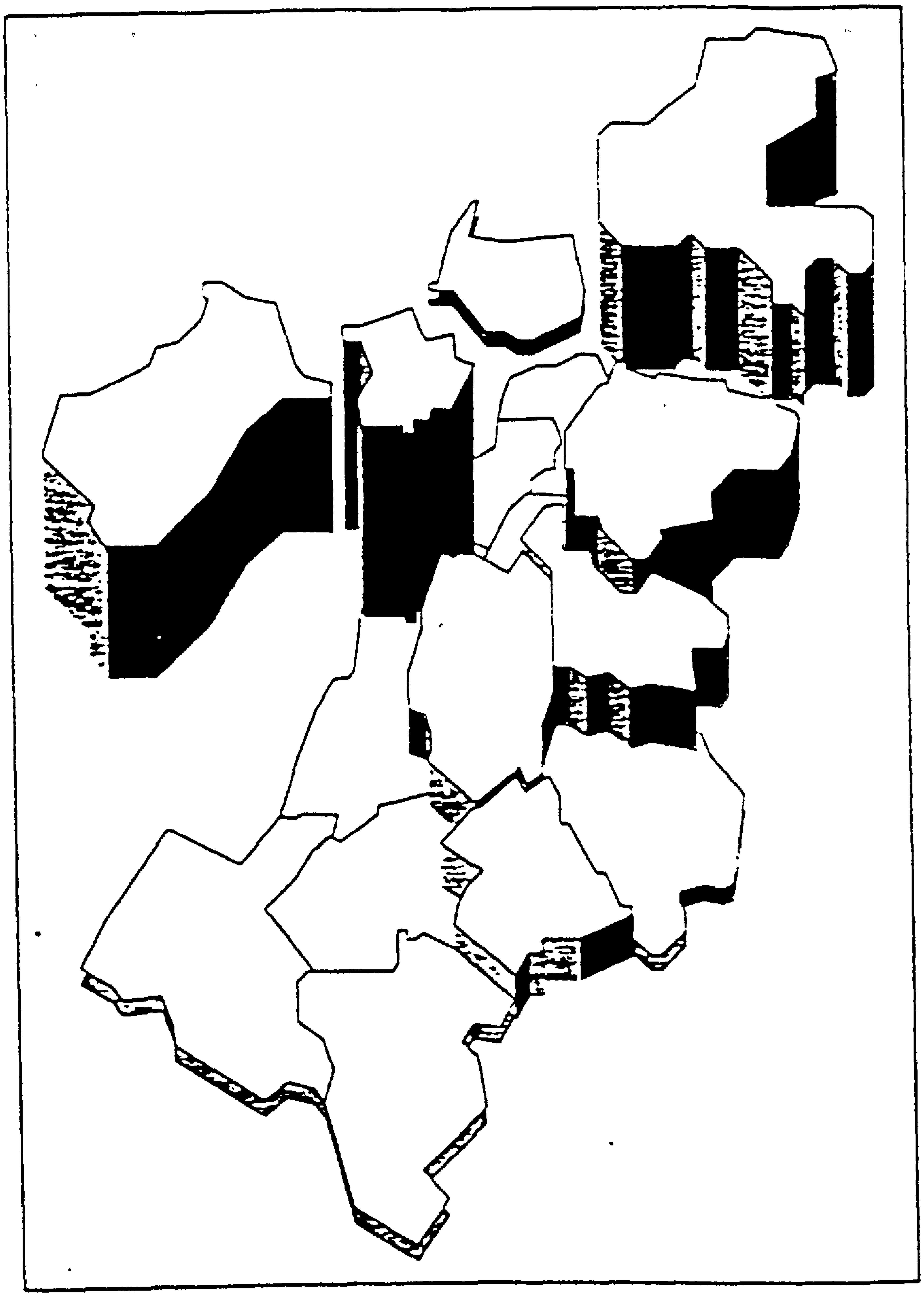
APPENDIX
A

MORTGAGE LENDING IN BOSTON'S NEIGHBOURHOODS 1981-1987

PAGES 315 - 386

MORTGAGE LENDING IN BOSTON'S NEIGHBORHOODS 1981-1987

A Study of Bank Credit and Boston's Housing



CHARLES FINN
Hubert H. Humphrey Institute of Public Affairs
University of Minnesota

December, 1989

ACKNOWLEDGEMENTS

The author wishes to thank Jim Ahrens and Bruce Messelt for their significant research contribution to this study. In addition, the Boston Redevelopment Authority provided data-gathering and graphics assistance. Rebecca Stevens, project coordinator, was especially helpful.

"All [regulated] financial institutions...[have] an affirmative responsibility to treat the credit needs of low- and moderate- income members of their communities as they would any other market for services that the institution has decided to serve."

Joint statement, Federal Reserve Board, Comptroller of the Currency, Federal Home Loan Bank Board, and Federal Deposit Insurance Corporation, March 21, 1989.

"Housing and mortgage credit markets in the city of Boston are functioning in a way that hurts black neighborhoods.... Analysis of the lending patterns of institutions according to their [Community Reinvestment Act] responsibilities casts considerable doubt on whether Boston's banks and thrifts are satisfying this obligation."

Katharine L. Bradbury, Karl E. Case, and Constance R. Dunham. Geographic Patterns of Mortgage Lending in Boston, 1982-1987. Boston: Federal Reserve Bank of Boston, August 31, 1989.

"Boston's banks have virtually ignored the city's minority neighborhoods during the 1980's.... Despite clear obligations under law, banks have not met the credit or service needs of neighborhood residents."

Community Investment Coalition, Community Investment Plan, August 24, 1989.

MORTGAGE LENDING IN BOSTON'S NEIGHBORHOODS, 1981-1987

A Study of Bank Credit and Boston's Housing

Charles Finn
Hubert H. Humphrey Institute of Public Affairs
University of Minnesota
December 22, 1989

FIGURES AND TABLES

TABLE OF CONTENTS

Executive Summary

This report shows a large racial disparity in mortgage lending by Boston banks. During a period of unprecedented real estate activity in the city, Boston's minority neighborhoods have not received their fair share of bank investment. These results indicate that banks have failed to meet their Community Reinvestment Act (CRA) responsibilities.

During a period of unprecedented real estate activity in the city, Boston's minority neighborhoods have not received their fair share of bank investment.

The costs of this disinvestment have been great for both minority neighborhoods and the economy as a whole. Banks, as an important source of capital, play a pivotal but often invisible role in determining whether a community will thrive or decline. Without a steady flow of credit, neighborhoods deteriorate. As a result, economic opportunities for residents of these neighborhoods are reduced, even during periods of economic growth. During periods of economic decline, disinvested neighborhoods suffer disproportionately.

The effects of neighborhood disinvestment ripple throughout the whole economy. In a city of renters, many of whom are unable to obtain mortgage credit to buy a home, the supply of workers diminishes when rents escalate. When developers find it hard to obtain construction financing for affordable housing development, this problem is exacerbated.

The state and federal CRAs emphasize the continuing, affirmative obligation of regulated banks and savings and loans to meet the credit needs of the communities in which they do business, including minority and low- and moderate-income neighborhoods. These laws do not ask banks to make risky loans. Rather, they require banks to seek out safe lending opportunities in all neighborhoods. The CRAs emphasize the obligation of banks to actively promote and market their services in every part of the geographic area in which they are chartered. Apparently, federal and state bank regulators have failed to implement the CRA in Boston.

This report examines patterns of mortgage lending by banks in white and minority neighborhoods with comparable incomes between 1981 and 1987, controlling for the number of potentially-owned housing units in each area of the city. Aside from varying by the number of potentially-owned units, mortgage lending would be expected to vary primarily by income. Not only is a family's income a major factor in its decision to buy a home, but it is also a major factor in a bank's decision whether or not to grant a family a mortgage loan.

The key findings of this report are as follows:

- Comparing neighborhoods with similar median incomes, the ratio of mortgage loans per 1,000 housing units in white and minority neighborhoods was 2.9 to 1 between 1981 and 1987.

- If it had not been for the availability of government- guaranteed loans — in particular, loans guaranteed by the Massachusetts Housing Finance Agency (MHFA), Veterans Administration (VA), and Federal Housing Administration (FHA), for which banks do not assume any risks — the racial disparity in mortgage lending by banks in Boston would have been far greater. The white/minority mortgage lending gap for banks increases from 2.9 to 1 to 3.4 to 1 when government-guaranteed mortgage loans are subtracted.

- Almost every major bank in Boston contributed to the racial disparity in mortgage lending we have observed in the banking industry as a whole. Most banks provided many more mortgages in white neighborhoods than in comparable minority neighborhoods. One major bank made no mortgage loans in minority neighborhoods during the period examined.

- Banks demonstrate a greater racial disparity in their lending than the three other primary types of mortgage lenders in Boston — a) mortgage companies, b) credit unions, and c) individual sellers and other private lenders.

- There is a demonstrable demand for mortgage loans in Boston's minority neighborhoods that is being met, in part, by sellers and other private parties. There was a disproportionate level of seller and other private financing in minority neighborhoods between 1981 and 1987. Seller financing is typically the financing of last resort for both buyer and seller — found where other sources of mortgage financing are not available or too expensive.

- Since there is less access to mortgage loans in minority neighborhoods, there is likely to be less access to construction loans for new housing as well, because the repayment of a construction loan depends on the availability of a mortgage loan. In locations in which banks avoid mortgage lending, they are also likely to avoid construction lending.

- While banks appear to be reluctant to lend in minority neighborhoods, where housing is relatively affordable, they clearly participated in and facilitated the wave of condominium conversion that Boston experienced in the 1980's.

In lower-income white neighborhoods, bank mortgage capital has been overwhelmingly invested in those neighborhoods with high levels of rental-to-condominium conversions — the city's gentrifying neighborhoods. Rental-to-condominium conversion has eroded Boston's affordable rental stock and displaced many families unable to afford a condominium unit.

- Interviews about bank practices conducted for this study indicate that there are at least five factors that may explain some of the racial disparity in lending that we have observed: lack of bank physical presence (branches and automated teller machines) in minority neighborhoods; insufficient minority hiring among banks; use of appraisers who are not familiar with Boston's minority neighborhoods; inappropriate mortgage loan products; and inadequate loan marketing through real estate agents.

- Banks in many cities have, individually and in collaboration, created loan pools and services to address the credit needs of minority and low-income neighborhoods. Many of these programs have extremely low default rates and have dramatically increased credit availability in formerly disinvested neighborhoods. To redress years of racial disparities in mortgage lending, banks in Boston need to create such a loan pool and target other new products and branches to underserved neighborhoods.

- Clearly-defined "linked deposit" programs by city and state governments and businesses are needed to encourage banks to improve their CRA responsibilities.

These results indicate that banks in Boston need to substantially increase their lending to minority neighborhoods and to low- and moderate-income families in general. The results of this report also cast grave doubt on the current viability of the Community Reinvestment Act. Though the federal CRA has been in force for twelve years and the state CRA for seven years, there appears to have been little or no enforcement by federal and state regulators. The data in this study indicate that banks continue to ignore the mortgage lending needs of minority neighborhoods in Boston. They may have ignored other credit and service needs — such as construction financing for affordable housing, small business finance, and basic banking services — as well.

Revisions to the federal CRA, passed by Congress this year, will require regulators to make public the CRA ratings and evaluations they periodically give to banks. Another new provision requires lenders to disclose the race, sex, and income level of loan applicants and recipients — so that racial, gender, and income disparities in loan rejection rates can be uncovered. It is not yet known whether public disclosure of this information, on its own, will be effective in changing bank lending patterns. Many banking experts have stated that bank CRA ratings and evaluations by regulators have been artificially high; regulators give higher ratings to banks than they deserve given their performance as shown in lending data. In addition, publicly-available data on loan applications and rejections are only useful if regulators consider these data as measures of CRA performance and sanction banks that show a poor CRA performance based on this data. The availability of performance data, even if accurate, is insufficient without mechanisms to enforce these obligations.

Finally, the results of this report raise the following questions: should bank regulators — whose primary purpose is to guarantee the safety and soundness of banks — monitor the CRA performance of banks at all? Or should an independent agency evaluate banks' performance under the CRA? The Federal Reserve Bank, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, the Comptroller of the Currency, and the State Division of Banks have clearly not carried out their responsibilities under the CRA. Banking experts suggest that many employees of these agencies have close ties to the banking industry; many have been or expect to be employed in the industry. These ties may prevent a full and fair evaluation of banks' CRA performance. Perhaps it is time to look to another agency — one that is less tied to the banking industry — to enforce the CRA. This may be the only measure that can ensure fair access to credit for all neighborhoods and families in Boston.

1. Introduction

During this decade, the Boston area has experienced dramatic economic growth: wages and income, employment and population have all increased. These trends have reversed the economic decline the city experienced in the 1970's. Minority neighborhoods have shared in these gains. In Roxbury, for instance, the median family income increased more rapidly than that of both Boston and the nation as a whole between 1979 and 1984. During these years, income in Roxbury rose by 42 percent, while it rose in Boston by 32 percent. Since price levels increased by 37 percent during these years, Roxbury's income growth represents a real gain. This reversed a trend in which Roxbury income fell behind that of Boston between 1969 and 1979 (Ganz 1987a).

Banks, as an important source of capital, play a pivotal but often invisible role in determining whether a community will thrive or decline.

The condition of many of Boston's minority neighborhoods, however, remains underdeveloped. This is often an indication of disinvestment. Banks, as an important source of capital, play a pivotal but often invisible role in determining whether a community will thrive or decline. The economic well-being of residential neighborhoods depends on an adequate flow of credit: the availability of credit makes new affordable housing production and homeownership possible, and both of these stabilize neighborhoods and provide economic benefits to neighborhood residents. Mortgage and construction lending decisions are often made based upon expectations about neighborhood growth or decline — expectations about risk. Thus, banks' expectations of neighborhood growth or decline often become reality — a "self-fulfilling prophecy". Without a steady flow of credit, neighborhoods deteriorate. Economic opportunities for residents of these neighborhoods are reduced, even during periods of economic growth. During periods of economic decline, disinvested neighborhoods suffer disproportionately.

Banks are the primary mortgage lenders in Boston.[1] Between 1981 and 1987, Boston area banks provided a total of 29,016 mortgage loans in Boston amounting to $2.4 billion. The distribution of this investment ranged widely among different neighborhoods. This report assesses how bank mortgage lending practices have affected Boston's economy. Specifically, it examines patterns of mortgage lending by banks in Boston's neighborhoods.

The key findings of this report are as follows:

- Mortgage lending in Boston's neighborhoods by banks demonstrates a pattern of marked racial disparity. Comparing neighborhoods with similar median family incomes, the ratio of mortgage loans per 1,000 housing units in white and minority neighborhoods was 2.9 to 1 between 1981 and 1987.[2]

- The white/minority lending gap increases to 3.4 to 1 when government-guaranteed mortgage loans are subtracted. These government-backed loans require little or no risk for the lender. A higher proportion of government-guaranteed mortgage lending by banks in Boston's minority neighborhoods may indicate that Boston-area banks are not willing to assume the same level of risk in minority neighborhoods that they do in white neighborhoods with comparable incomes.

- Almost every major bank in Boston contributed to the racial disparity in mortgage lending we have observed in the banking industry as a whole. Most banks provided many more mortgages in white neighborhoods than in comparable minority neighborhoods. One major bank in the city made no mortgage loans in minority neighborhoods during the period examined.

- Banks demonstrate a greater racial disparity in their lending than the three other primary types of mortgage lenders in Boston — a) mortgage companies, b) credit unions, and c) individual sellers and other private lenders. Though the mortgage lending pattern for all lenders combined shows a racial disparity, the racial disparity in mortgage lending by banks is far more pronounced than that of any other lender.

[1] For the purposes of this study, the term "banks" will be used to refer to regulated lenders. Regulated lenders are lenders that fall under the jurisdiction of one or more of the four regulatory agencies (the Federal Reserve, the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the Federal Home Loan Bank Board (FHLBB)). Lenders under the jurisdiction of these four agencies include all banks, savings and loans, and credit unions that provide home mortgage loans. Mortgage companies and finance companies are unregulated.

[2] Throughout this report, "housing units" include only those units which could potentially be owned during the period examined. See Section 3 of this report for a description of the types of units included in this definition.

- There is a demonstrable market for mortgage loans in Boston's minority neighborhoods that is being supplied, in part, by sellers and other private lenders. Though, between 1981 and 1987, Boston area banks provided record levels of mortgage lending in Boston, there was a disproportionate level of seller and other private financing in minority neighborhoods during this period compared with white neighborhoods with similar incomes. Seller financing is typically the financing of last resort for both buyer and seller — found where other sources of mortgage financing are not available or too expensive.

Intentionally or not, Boston's banks have failed to tap the market for homeownership in the city's minority neighborhoods.

- Since there is less access to mortgage loans in minority neighborhoods, there may be less access to construction loans for new housing as well, because the repayment of a construction loan depends on the availability of a mortgage loan. In locations in which banks avoid mortgage lending, they are also likely to avoid construction lending. Interviews with developers of affordable housing in minority neighborhoods indicate that there may, indeed, be racial disparities in construction lending as well as in mortgage lending.

- While banks appear to be reluctant to lend in minority neighborhoods, where housing is relatively affordable, they clearly participated in and facilitated the wave of condominium conversion that Boston experienced in the 1980's. In lower-income white neighborhoods, bank mortgage capital has gone overwhelmingly to those neighborhoods with high levels of rental-to-condominium conversions — the city's gentrifying neighborhoods. Rental-to-condominium conversion has eroded Boston's affordable rental stock and displaced many families unable to afford a condominium unit.

- Interviews about bank practices — conducted for this study — indicate that there are at least five factors that create some of the racial disparity in lending that we have observed: lack of bank physical presence (branches and automated teller machines) in minority neighborhoods; insufficient minority hiring among banks; use of appraisers who are not familiar with Boston's minority neighborhoods; inappropriate mortgage loan products; and inadequate loan marketing through real estate agents.

The results of this report reveal a market failure. Intentionally or not, Boston's banks have failed to tap the market for homeownership in the city's minority neighborhoods. The City of Boston has provided large amounts of resources for housing production and capital improvements in the city, particularly in minority neighborhoods. Since 1984, $32.8 million in direct subsidies have been provided to affordable housing projects in Roxbury alone. In addition, banks themselves have successfully participated in public-private initiatives — such as the Boston Housing Partnership — to expand the supply of affordable housing in Boston. However, bank business activities appear to have contravened public and private efforts to expand housing opportunities in the city's neighborhoods. While high rents and escalating housing prices threaten to slow economic growth in the entire Boston region, lending decisions by Boston area banks between 1981 and 1987 have diminished homeownership opportunities for many of the city's minority and low- and moderate-income residents.

In addition, Boston bank lending patterns do not appear to have met the standards of the federal and state Community Reinvestment Acts, which direct banks to serve the lending needs of all neighborhoods in the communities in which they do business. Among lending institutions, banks alone are covered by this act. Thus, banks have a unique legal as well as an economic obligation to maximize housing opportunities for the city's residents, consistent with sound banking practices.

The racial disparities described in this study reflect those found in an August 1989 study by the Federal Reserve Bank of Boston. The Federal Reserve Bank study showed a black/white gap in mortgage lending in Boston between 1982 and 1987 that could not be explained by neighborhood characteristics alone. It concluded that "housing and mortgage credit markets in the city of Boston are functioning in a way that hurts black neighborhoods" (Bradbury, Case, and Dunham 1989:i).

We see many of the neighborhood characteristics which were treated in the Federal Reserve Bank study as causes of lending patterns — such as housing values, the vacancy rate, mobility, and housing development — as themselves influenced by lending practices. In this report, therefore, we compare mortgage lending by utilizing the major factor — demand — that should explain market behavior by banks. The report examines lending in white and minority areas with comparable incomes (a proxy for demand), controlling for the number of potentially-owned housing units in each neighborhood. We make this comparison by neighborhood and census tract, by bank, with and without government-guaranteed loans, and for neighborhoods with and without high levels of condominium conversion. We also make this comparison for home improvement loans. In addition, mortgage lending by banks is compared with mortgage lending by other types of lenders.

The Federal Reserve Bank study focussed on all mortgage lenders (including mortgage and finance companies and seller financing). We have chosen to focus on only banks, since banks alone are covered by the Community Reinvestment Act. As the Federal Reserve Bank report stated: "Not only are banks and thrift institutions central to the homeownership process, but unlike other lenders they have an affirmative obligation under the Community Reinvestment Act to help meet the credit needs of their entire community" (Bradbury, Case, and Dunham 1989:32-33)

This report is organized as follows:

Section 2 provides background on Boston's economy and the Community Reinvestment Act;

Section 3 presents the results of this study;

Section 4 presents some explanations for the findings;

Section 5 suggests recommendations; and

Section 6 presents bank community lending programs in other cities.

Boston's Housing and Economy

Boston has experienced substantial economic growth during the last decade. Between 1976 and 1987, average annual job growth in Boston was over 10,000. As a result of this growth, unemployment rates in Boston fell dramatically between 1976 and 1987, from 12.8 percent to 3.2 percent. Nationally, unemployment rates fell from 8.5 percent to 6.2 percent during these years (Perkins 1989). Moreover, Boston residents' share of Boston jobs has been increasing, whereas before 1980 this share was decreasing (Ganz 1987b).

These increases in employment have spurred increases in per capita income for Boston residents. Since 1982, Boston's per capita income growth has been greater than that of the metro area, the state, New England, and the nation (Ganz 1987b). Wages have increased relative to the nation as well. In 1981, wages in Suffolk County (96% of those who work in Suffolk County work in Boston) were only 5 percent higher than U.S. metro wages; in 1986, however, they were 15 percent above the national average (Azad and Foley 1988).

One effect of Boston's booming economy has been dramatic increases in housing costs. The recent expansion of population and employment in the city has put extreme upward pressure on housing prices. Between 1984 and 1988, the average single-family home price in the Boston area increased by 103 percent for new homes and 90 percent for existing homes (Lomas Mortgage USA 1989). In 1988, the Boston area's median home price was more than double the national median (National Association of Realtors 1989).

As a result, many of Boston's low- and moderate-income residents have seen housing prices spiral far beyond their reach. In 1988, the Boston area was the fourth least affordable housing market in the nation, with average-income families unable to qualify for a conventional mortgage on the average home. Only 21.2 percent of all metropolitan Boston households could have qualified for a mortgage on the average home in 1988, assuming that only standard mortgage loan products (i.e. those that conform to secondary mortgage market guidelines) were available to home buyers (Lomas Mortgage USA 1989).

It is likely that minority families have been particularly hard-hit by rising housing prices, since a disproportionate number of them did not own a home at the beginning of the housing boom and the results of this study indicate that access to mortgage credit in minority neighborhoods has been restricted. The Boston metropolitan area finished last out of 48 metropolitan areas in 1980 (at the start of the housing boom) in terms of the black homeownership rate as a percentage of the white homeownership rate — 41.3 percent. The average for all of the 48 metropolitan areas was 66.5 percent. In other words, controlling for differences among cities in the overall rate of homeownership due to variations in the type of housing stock, blacks in Boston fared poorly compared with whites in terms of homeownership, despite the fact that black/white income disparities are smaller in Boston than in many other U.S. cities (O'Hare 1986). The racial disparities in bank lending practices that we will show in this report are likely to have hindered black gains in homeownership rates relative to whites since 1980.

The Boston metropolitan area finished last out of 48 metropolitan areas in 1980 in terms of the black homeownership rate as a percentage of the white homeownership rate — 41.3 percent.

Increased housing values in Boston have also encouraged the conversion of existing rental apartments to condominiums, since condominium conversion often increases the value of rental units and has made their sale to individual owners very profitable. Condominium conversion has eroded much of the city's affordable rental stock and often displaces tenants by either driving up rents or causing a condominium buyer to move in. Between 1980 and 1988, close to 20,000 of Boston's rental units were converted to condominiums (Achtenberg and Stevens 1988). Between 1980 and 1986, the number of rental units in the city declined by 5.7 percent (9,029 units), even though the number of total housing units in the city increased by 3.7 percent during these years (Goetze 1989). The very small amount of new rental construction in the city failed to keep pace with the erosion of the rental stock through condominium conversions. As a result, the overall effect of these conversions has been to diminish housing affordability in the city. A new city ordinance, enacted in 1988, has slowed condominium conversions, but not before a substantial part of the city's rental inventory was converted.

Interviews with local economists and personnel managers in the Boston area have revealed that high housing prices are detrimental to Boston's businesses as well as the city's low- and moderate-income families (Greiner 1987). Boston-area businesses are finding it increasingly difficult to attract employees from other areas of the country because of the high cost of housing. Moreover, increases in housing costs are pushing wages up. The inability of families in the city to buy homes has helped to create a labor shortage — similar to the shortages experienced in California and the New York City area — that could slow economic growth in the entire region (Greiner 1987).

It is likely that the demand for housing in Boston will increase over the next several years. The Boston area is expected to realize a 296,000 job gain between 1990 and the year 2000 — an 11 percent increase (NPA Data Services, Inc. 1988). This growth, coupled with demographic changes such as the aging of Boston's baby boom population into prime household formation years, will spur an increase in the number of households that will put additional pressure on the availability and affordability of housing in the city (Perkins 1987).

Moreover, many of the new jobs expected to be created over the next several years will be in the lower-wage services and retail trade sectors (Carre 1988).[3] Boston employers in these industries will find workers especially hard to find, since the income required to buy homes may be higher than the wages these employers are prepared to pay. Continued economic expansion depends upon the availability of affordable housing for families with lower incomes.

This study has identified an anomalous pattern of mortgage lending by banks: while mortgage credit appears to be easy to obtain in lower-income white neighborhoods undergoing high levels of condominium conversion, it appears to be difficult to obtain in minority neighborhoods, where housing prices are lower and where many people obtain mortgage credit from other sources. Thus, bank mortgage lending practices have both exacerbated the affordable housing shortage and limited homeownership rates. If they continue, the growth of the area's economy could be slowed. Evenhanded lending is essential if Boston's workforce is to expand commensurate with the potential for economic growth in the city through the 1990's.

[3] Service sector jobs include such jobs as health services, legal services, educational services, and auto repair services.

The Community Reinvestment Act

It is essential to the well-being of the city for banks to make credit available to every neighborhood and income, racial, and ethnic group in the city. Moreover, banks have a legal obligation to do so. The federal and state Community Reinvestment Acts require every bank to meet the credit needs of every sector of the communities in which they do business. The federal Community Reinvestment Act (CRA) was passed in 1977 as one of the five titles of the Housing and Community Development Act of 1977. Its passage was partly a response to deteriorating urban conditions in the 1970's. At the time, many legislators viewed low lending activity by banks in low-income and minority urban neighborhoods as an important part of the general phenomenon of economic disinvestment from several U.S. cities.

The CRA, along with the Home Mortgage Disclosure Act (HMDA) and the Equal Credit Opportunity Act, constituted the government's response to a national consensus in the 1970's that minority individuals and all individuals living in older, minority, and/or racially changing neighborhoods faced restricted credit availability for the purchase and improvement of their housing.[4] The ultimate effects of restricted credit availability on neighborhoods, it was generally agreed, are physical neighborhood decline, reduced housing values, crime, and reduced opportunities for socioeconomic mobility. Restriction of credit availability by banks was recognized as detrimental to entire cities as well — through disinvestment, valuable infrastructure was lost, local tax bases were undermined, and the general quality of life for urban residents declined. With the passage of the CRA, HMDA, and the Equal Credit Opportunity Act, "lender bias was publicly acknowledged to be part of the explanation for the abandonment and deterioration of older central city neighborhoods...[and] of neighborhoods composed of racial minorities" (Shlay 1988:139).

[4] HMDA (1975) requires regulated banks with more than ten million dollars in assets and an office in a particular Metropolitan Statistical Area (MSA) to report the location of their mortgage, home improvement and multi-family loans by census tract. The Equal Credit Opportunity Act (1976) forbids lenders from denying credit to applicants on the basis of an their race, color, religion, national origin, gender, marital status, or any other characteristic other than those that could affect a loan applicant's ability to repay a loan.

The CRA emphasizes the continuing, affirmative obligation of federally-regulated banks to meet the credit needs of the communities in which they do business, including minority and low- and moderate-income neighborhoods. It does not ask banks to make risky loans. Rather, it requires fair banking practices among federally-chartered banks with regard to credit flows in all neighborhoods, including low-income and minority neighborhoods. It emphasizes the obligation of banks to make loans to, as well as take deposits from, all parts of their market area. It also emphasizes the obligation of banks to actively promote and market their services in every part of the geographic area in which they are chartered. The CRA encourages banks to maximize opportunities for homeownership in every neighborhood within a community.

The Massachusetts Community Reinvestment Act, which is almost identical to the federal CRA but applies to state- chartered rather than federally-chartered banks, was passed by the legislature in 1982.

The CRA performance of banks must be assessed and rated during periodic bank examinations by federal and state regulators. If necessary, regulators are supposed to specify ways in which a bank's CRA performance might be improved. CRA ratings are supposed to be taken into consideration when a regulator decides whether to grant a bank permission to "change its status" by, for instance, acquiring or merging with another bank. (Regulators are currently not required to make these ratings public; in 1990, however, they will be required to do so.)

However, enforcement of CRA obligations has been limited. This has caused the Federal Reserve Bank and Congress to clarify federal CRA requirements and strengthen monitoring. By penalizing a bank for failing to serve poor neighborhoods in February 1989, the Federal Reserve Board indicated that it will interpret the CRA more strictly than it had in the past. In that month, the Board rejected a request by the Chicago-based Continental Bank Corporation to purchase a small Arizona bank because it said that Continental had not fulfilled its duties under the CRA. In March 1989, the four federal bank regulatory agencies released, for the first time since the CRA was passed, a statement presenting examples of ways in which a bank can meet the credit needs of poor people in their communities, such as offering loans with flexible underwriting criteria and special small business lending programs. Finally, in August 1989, Congress passed — as part of the Financial Institutions Reform, Recovery, and Enforcement Act — a legislative provision strengthening the CRA. This provision directs federal regulatory agencies to make public the CRA ratings and evaluations they periodically give to banks. Another provision in the bill amends the Home Mortgage Disclosure Act to require lenders to disclose the race, sex, and income level of loan applicants and recipients.[5]

Summary

In sum, the continued growth of Boston's economy depends on an adequate supply of credit in all of the city's neighborhoods. The federal and state CRAs recognize that the economic vitality of cities depends on the equitable provision of credit to all neighborhoods and indicate that banks are obligated to provide this credit. This study, however, has found that Boston banks have not been providing adequate credit to all of Boston's neighborhoods: in fact, banks have been providing far fewer mortgage loans to Boston's minority neighborhoods than they would be expected to if market factors alone determined their lending behavior. Banks have been lending to neighborhoods with high levels of condominium conversions — i.e. gentrifying neighborhoods. While this behavior may not have been intentional, it is short-sighted from the perspective of the city's overall economic health, since condominium conversions have seriously eroded housing affordability in the city. Because bank lending has both increased economic and racial disparities in the availability of bank loans and contributed to the erosion of affordable housing in Boston, bank lending patterns have been detrimental to the economic vitality of the city.

Below, the specific findings of this study will be discussed.

[5]The savings and loan bailout bill also extends the Home Mortgage Disclosure Act to cover non-depository mortgage lenders (i.e. mortgage and home finance companies).

3. *Results*

Data Sources

In this study, the geographic distribution of mortgage loans is examined across two different types of areas: neighborhoods and census tracts. The neighborhoods used in this study are technically called neighborhood statistical areas (NSAs). There are 63 neighborhoods in Boston.[6] These neighborhoods — which are listed in Table 1 — are relatively homogeneous (i.e. households in each neighborhood have similar economic and social characteristics). Examples of these neighborhoods are: Egleston Square, Meeting House Hill, Forest Hills/Woodbourne, and Thompson Square. The boundaries for neighborhoods were drawn for the 1980 Census. Census tracts are smaller than neighborhoods. The populations of individual census tracts are also relatively homogeneous. There is an average of 26 city blocks in each census tract in Boston. Boston contains 171 census tracts.

The primary data used for this study are Home Mortgage Disclosure Act (HMDA) data collected by federal regulators and compiled by the Federal Financial Institutions Examination Council in Washington, D.C. HMDA data are the best source of information on mortgage and home improvement lending by regulated lenders. [7] Congress specifically required lenders to compile these data so that assessments of the type presented in this study could be made by federal bank regulators and researchers. HMDA data include number and dollar volume of mortgage and home improvement loans, whether original or purchased (including refinancings) by bank (or bank branch) and by census tract. Numbers of Veterans Administration and Federal Housing Administration loans are also included in these data. This study uses HMDA data for the years 1981-1987. Though HMDA data include multifamily mortgage loans, only data for mortgage loans for 1-4 family units and home improvement loans were used. The HMDA data were obtained in machine-readable form from the Federal Financial Institutions Examination Council. Data on Massachusetts Housing Finance Agency (MHFA) loans were obtained

[6] Only 60 of these neighborhoods were used in this study; census data could not be translated into the remaining three neighborhoods because they did not contain more than 50 percent of any one census tract.

[7] HMDA data include all mortgage and home improvement loans originated or purchased by regulated lenders with assets over $10 million. This study uses HMDA data for all regulated lenders with an office in the Boston Metropolitan Statistical Area.

separately from MHFA.[8] (Throughout this paper, Veterans Administration, Federal Housing Administration, and MHFA loans are referred to collectively as "government-guaranteed loans".)

Housing and demographic data were obtained from a variety of sources. Data on the number of owner-occupied housing units in each neighborhood and census tract were obtained from the 1980 Census and updated for 1984 and 1987 using Boston Redevelopment Authority (BRA) data. Data on median family income were also obtained from the 1980 Census; these data were updated for 1984 and 1987 using income estimates from National Planning Data Corporation, a private market research firm used by several large banks in Boston.[9] Data on the minority composition of geographic areas were used for 1980 only. (This is the latest year for which reliable data by neighborhood and census tract are available.)

Data were also used on all real estate transfers collected from the Suffolk County Registry of Deeds and converted to machine-readable form by County Home Data. These data include all residential, commercial, and industrial real estate transfers. The bank, mortgage company, or other institution which financed each financed real estate transfer is listed. If the transfer was seller- or otherwise privately-financed, this is noted as well. County Home Data for the year 1986 were used. This year was selected because it represented a period of significant real estate activity in Boston.

In addition, qualitative information was gathered through a mailed survey to Boston realtors and extensive interviews with public agencies, community leaders, consumer groups, developers, and other parties involved in housing and community development.[10]

[8] MHFA data were available for 1982-1987 only.

[9] These data were provided by the Bank of New England.

[10] Appendix A is a list of people interviewed for this study.

Throughout this report, the number of loans per 1,000 potentially-owned units within each neighborhood or census tract is observed. Potentially-owned units for a neighborhood or census tract are the ownership units in that neighborhood or tract in each year during the period examined (1981-87) summed. Ownership units are all 1980 units owned and occupied by a family ("family owner-occupied units") plus two-thirds of the condominium units created between 1981 and 1987.[11] The number of potentially-owned units represents potential sales, and the number of loans in an area should be proportional to the number of sales.

The number of potentially-owned units in a neighborhood depends on the density of development, the amount of rental (including subsidized) housing, the level of condominium conversions or construction, and other factors. By dividing the number of loans by the number of potentially-owned units in each neighborhood or census tract, this study compensates for the fact that some neighborhoods and census tracts have more potentially- owned units than others — and are thus likely to have had a higher number of sales and a higher number of mortgage loans.[12] In 1987, for example, the actual number of ownership units in each neighborhood ranged from a low of 124 in the Medical Center Area neighborhood in Fenway-Kenmore to a high of 4,038 in the Brook Farm Parkway neighborhood in West Roxbury. Loans per 1,000 units in these two neighborhoods between 1981 and 1987 were 189 and 40, respectively.

Mortgage Lending by Income

Though the Community Reinvestment Act directs banks to provide mortgage loans in all neighborhoods, regardless of neighborhood income or race, one would expect mortgage lending to *vary* with respect to income: demand for mortgage loans is weaker among lower-income families than it is among wealthier families because fewer lower-income families can afford to buy a home. For this study, neighborhoods and census tracts have been divided into income groups based on income "deciles". A decile is a category into which 10 percent of the census tract or neighborhood incomes fall.

[11] Two-thirds of converted or new condominiums were included in the number of ownership units. Based on information gathered on a sample of condominium units, the BRA Research Department estimates that this is the proportion of all converted or new condominium units which have been sold (see Goetze 1988). Condominiums are considered ownership units even if they are or have been occupied by tenants.

[12] For the remainder of this report, "potentially-owned units" will simply be called "units".

Table 1 shows mortgage lending by banks among neighborhoods in three income categories: (1) the first through third deciles (median family incomes below $28,805 in 1987); (2) the fourth through sixth deciles (median family incomes between $28,805 and $46,455; and (3) the seventh through tenth deciles (median family incomes above $46,455). This table shows that, between 1981 and 1987, mortgage loans per 1,000 units were lower in the lowest and middle income categories than they were in the highest income category: there were 67 loans per 1,000 units in the lowest income category, 53 loans per 1,000 units in the middle income category, and 85 loans per 1,000 in the highest income category.

These lending figures by income category, however, mask wide variations in levels of mortgage lending *between neighborhoods within the same income categories.* There are particularly wide variations within the lowest income category. The neighborhood with the lowest lending level overall and the neighborhood with the highest lending level overall are both in the lowest income category: the Dudley/Brunswick King neighborhood with 17 loans per 1,000 units and the West Fens neighborhood with 192 loans per 1,000 units.[13] The citywide average for these years was 70 loans per 1,000 units.

Mortgage Lending by Income and Race

As the statistics presented above reveal, characteristics other than the number of ownership units in a neighborhood or the income (i.e. the "buying power") of a neighborhood influence the sharp variations in mortgage lending between neighborhoods. Several recent studies have shown that race is a factor in mortgage lending in Boston and other cities.[14] To examine this hypothesis, we compared mortgage lending in predominantly white and in predominantly minority areas with similar median family incomes. We define white neighborhoods as those neighborhoods with populations 70 percent or more white; minority neighborhoods are those with populations 70 percent or more minority.

[13]Although the data for the Mission Hill Projects neighborhood are included in the totals and averages for categories of neighborhoods and for the city as a whole, they are not used throughout this report in neighborhood-by-neighborhood comparisons because the number of units in that neighborhood is so small (the data show three ownership units there in 1980 (with none added between 1981 and 1987) and six mortgage loans during the period examined).

[14]For example: Bradbury, Case, and Dunham 1989; Dedman 1988; Blossom, Everett, and Gallagher 1988; Goldstein 1986, 1987; Goldstein and Shiey 1988; Shiey 1985, 1986, 1987a, 1987b, 1988, Squires and Velez 1987; Williams 1988. Cities examined in these studies are Atlanta, Baltimore, Boston, Chicago, Detroit, Milwaukee, New Castle County (Delaware), New York City, Philadelphia, and Washington, D.C. These examples represent only a portion of the research on mortgage lending patterns; many neighborhood groups have conducted unpublished studies of mortgage lending patterns using Home Mortgage Disclosure Act data (Shiey 1989:204).

TABLE 1

MORTGAGE LENDING IN BOSTON NEIGHBORHOODS BY INCOME, 1981-87

NEIGHBORHOOD	PLANNING DISTRICT	1987 INCOME	# LOANS, 1981-87	# LOANS/ 1,000 UNITS	TOTAL LOAN VOLUME
Lower-Income					
DUDLEY/BRUNSWICK KING	Roxbury	$16,649	101	17	$7,393,000
SAV-MOR	Roxbury	$19,187	85	25	$5,016,000
WASHINGTON PARK	Roxbury	$20,087	204	27	$13,363,000
SOUTHERN MATTAPAN	Mattapan	$22,073	311	29	$21,198,000
WELLINGTON HILL	Mattapan	$23,932	148	30	$9,421,000
West St/River St.	Hyde Park	$25,228	363	34	$21,751,000
FRANKLIN FIELD SOUTH	Mattapan	$15,290	230	35	$15,748,000
Egleston Square	Roxbury	$18,200	264	40	$21,057,000
Fields Corner West	South Dorchester	$24,730	312	42	$21,885,000
HIGHLAND PARK	Roxbury	$17,623	79	43	$6,124,000
Uphams Corner/Jones Hill	North Dorchester	$15,161	341	43	$22,860,000
Ashmont	South Dorchester	$28,621	510	44	$37,710,000
Columbus Park/Andrew Sq	South Boston	$20,966	156	51	$13,165,000
Fields Corner East	South Dorchester	$24,394	269	53	$19,422,000
CODMAN SQUARE/EAST WECAN	South Dorchester	$19,420	448	53	$30,897,000
Hyde Square	Jamaica Plain	$21,303	453	57	$36,995,000
Bowdoin North/Mt. Bowdoin	South Dorchester	$15,858	148	59	$6,338,000
Meeting House Hill	South Dorchester	$24,037	264	61	$16,965,000
Top of the Hill/RTH	Jamaica Plain	$15,513	296	72	$24,538,000
Lower Washington/Mt. Hope	Roslindale	$24,990	388	74	$31,801,000
Jamaica Central/Sumner Hill	Jamaica Plain	$24,088	611	82	$47,300,000
FRANKLIN FIELD NORTH	Roxbury	$17,048	208	83	$14,754,000
D St/West Broadway/North	South Boston	$21,011	414	89	$31,196,000
Jeffries Point/Airport	East Boston	$27,779	469	96	$26,207,000
Central-Maverick Sq/	East Boston	$22,920	457	104	$21,561,000
Eagle Hill	East Boston	$18,434	1,055	113	$45,752,000
Fenway	Fenway-Kenmore	$25,747	421	160	$41,431,000
Downtown/Central/West End	Central	$25,924	613	171	$66,557,000
Commonwealth	Allston-Brighton	$18,643	1,830	187	$112,881,000
Med Center Area	Fenway-Kenmore	$13,235	127	189	$6,550,000
West Fens	Fenway-Kenmore	$16,616	339	192	$21,886,000
MISSION HILL PROJECTS	Jamaica Plain	$11,153	6	286	$560,000
AVERAGES:			373	67	$25,634,000

Middle-Income					
Centre-South	Roslindale	$33,894	225	30	$19,702,000
St. Marks	South Dorchester	$31,668	165	30	$13,114,000
Metropolitan Hill/Beech	Roslindale	$36,510	527	31	$38,924,000
Georgetown	Hyde Park	$37,692	204	31	$12,648,000
Upper Washington/Spring	West Roxbury	$42,065	519	32	$37,090,000
Neponset/Port Norfolk	South Dorchester	$32,727	67	34	$3,853,000
West WeCan/West Codman Hill	Mattapan	$31,936	313	38	$20,594,000
Forest Hills/Woodbourne	Roslindale	$29,984	307	40	$22,603,000
Brook Farm Parkway	West Roxbury	$40,381	1,061	40	$84,088,000
Stony Brook/Cleary Square	Hyde Park	$31,306	675	41	$45,674,000
East Lower Mills/Cedar Gr.	South Dorchester	$34,211	254	46	$16,443,000
Columbia/Savin Hill/	North Dorchester	$32,750	489	49	$34,153,000
Fairmount Hills	Hyde Park	$37,751	540	51	$23,815,000
LOWER ROXBURY	Roxbury	$45,352	16	54	$231,000
Telegraph Hill	South Boston	$29,948	491	55	$40,161,000
Medford	Charlestown	$37,709	292	56	$24,567,000
Brighton	Allston-Brighton	$29,778	1,678	66	$126,441,000
Harbor View/Orient H	East Boston	$33,698	727	79	$35,140,000
City Point	South Boston	$34,675	680	82	$54,856,000
Kenmore	Fenway-Kenmore	$44,268	171	83	$12,696,000
South End	South End	$40,395	1,012	84	$112,055,000
Thompson Square	Charlestown	$38,801	659	90	$73,062,000
Allston	Allston-Brighton	$29,546	693	111	$63,582,000
Chinatown/South Cove/Bay	Central	$43,456	405	111	$48,711,000
AVERAGES:			507	53	$40,204,000
Higher-Income					
Bellevue Hill	West Roxbury	$49,680	334	36	$26,067,000
Jamaica Hills/Jamaica Pond	Jamaica Plain	$50,430	551	61	$51,654,000
North End/Waterfront	Central	$53,220	1,166	92	$187,026,000
Back Bay-Beacon Hill	Back Bay-Beacon Hill	$69,990	2,683	109	$337,928,000
AVERAGES:			1,184	85	$150,668,000
CITYWIDE AVERAGES:			480	70	$39,797,000

Data are for mortgage loans for 1- to 4-family units by Boston metro area regulated lenders. For the ratios of loans to 1,000 housing units, units are the sum of the number of potentially-owned units in each year. Neighborhoods 70% or more minority are capitalized. Lower-income neighborhoods are those with 1987 median family incomes less than $28,805; middle-income neighborhoods are those with 1987 median family incomes between $28,805 and $46,455; and higher-income neighborhoods are those with median family incomes over $46,455.

Source: Home Mortgage Disclosure Act data

Of the 60 neighborhoods listed in Table 1, 38 were 70 percent or more white and 11 were 70 percent or more minority. All except one of the 11 minority neighborhoods are in the lowest income category presented in Table 1 (median family incomes less than $28,805 in 1987).

The average number of loans in minority neighborhoods was only 35 per 1,000 units — half the citywide average of 70. The average number of loans per 1,000 units in white neighborhoods with comparable incomes was 102.

Table 2 compares mortgage lending levels in white and minority neighborhoods in the lowest income category listed in Table 1 — those with median family incomes below $28,805 in 1987. (The only minority neighborhood in Boston with a median family income of $28,805 or more — Lower Roxbury — is included with the other minority neighborhoods in this table so that all minority neighborhoods are examined. This provides a more conservative measure of any racial disparity in mortgage lending than if we had not included Lower Roxbury.[15]) The results are striking. This table demonstrates that mortgage lending by banks between 1981 and 1987 varied with neighborhood minority composition. The ratio between the number of loans per 1,000 units in white neighborhoods and minority neighborhoods with comparable incomes during these years was *2.9 to 1*. The average number of loans in minority neighborhoods was only 35 per 1,000 units — half the citywide average of 70. The average number of loans per 1,000 units in white neighborhoods with comparable incomes was 102. All but 2 of the 11 minority neighborhoods received lower-than-average numbers of loans per 1,000 units.

Seven of the 11 minority neighborhoods in Boston received *lower* numbers of mortgage loans per 1,000 units than the comparable white neighborhood with the *lowest* number of loans per 1,000 units — the Ashmont neighborhood in South Dorchester (in which 44 loans per 1,000 units was found).

Figure 1 shows similar results on a map by planning district. Each planning district contains several neighborhoods. Planning districts are the Boston areas familiar to most people. There are sixteen planning districts in Boston: Allston- Brighton, Back Bay-Beacon Hill, Central, Charlestown, East Boston, Fenway-Kenmore, Hyde Park, Jamaica Plain,

[15] In this table and all other tables comparing mortgage lending in white and minority neighborhoods in this report, the one minority neighborhood with median family income above $28,805 in 1987 — Lower Roxbury — is included. By including all minority neighborhoods in these comparisons, these tables are providing conservative measures of racial bias in mortgage lending among banks.

TABLE 2

MORTGAGE LENDING IN LOWER-INCOME WHITE AND MINORITY NEIGHBORHOODS IN BOSTON, 1981-1987

NEIGHBORHOOD	PLANNING DISTRICT	# LOANS, 1981-87	# LOANS 1,000UNITS	TOTAL LOAN VOLUME
White Neighborhoods				
Ashmont	South Dorchester	510	44	$37,710,000
Columbus Park/Andrew Sq	South Boston	156	51	$13,165,000
Fields Corner East	South Dorchester	269	53	$19,422,000
Lower Washington/Mt. Hope	Roslindale	388	74	$31,801,000
Jamaica Central/Sumner Hill	Jamaica Plain	611	82	$47,300,000
D St/West Broadway/North	South Boston	414	89	$31,196,000
Jeffries Point/Airport	East Boston	469	96	$26,207,000
Central-Maverick Sq/	East Boston	457	104	$21,561,000
Eagle Hill	East Boston	1,055	113	$45,752,000
Fenway	Fenway-Kenmore	421	160	$41,431,000
Downtown/Central/West End	Central	613	171	$66,557,000
Commonwealth	Allston-Brighton	1,830	187	$112,881,000
West Fens	Fenway-Kenmore	339	192	$21,886,000
AVERAGES:		579	102	$39,759,000
Minority Neighborhoods				
Dudley/Brunswick King	Roxbury	101	17	$7,393,000
Sav-Mor	Roxbury	85	25	$5,016,000
Washington Park	Roxbury	204	27	$13,363,000
Southern Mattapan	Mattapan	311	29	$21,198,000
Wellington Hill	Mattapan	148	30	$9,421,000
Franklin Field South	Mattapan	230	35	-$15,748,000
Highland Park	Roxbury	79	43	$6,124,000
Codman Square/East WeCan	South Dorchester	448	53	$30,897,000
Lower Roxbury	Roxbury	16	54	$931,000
Franklin Field North	Roxbury	208	83	$14,754,000
Mission Hill Projects	Jamaica Plain	6	286	$560,000
AVERAGES:		167	35	$11,400,000
WHITE/MINORITY RATIO:			2.9	
RATIO EXCLUDING GOVERNMENT-GUARANTEED LOANS:			3.4	

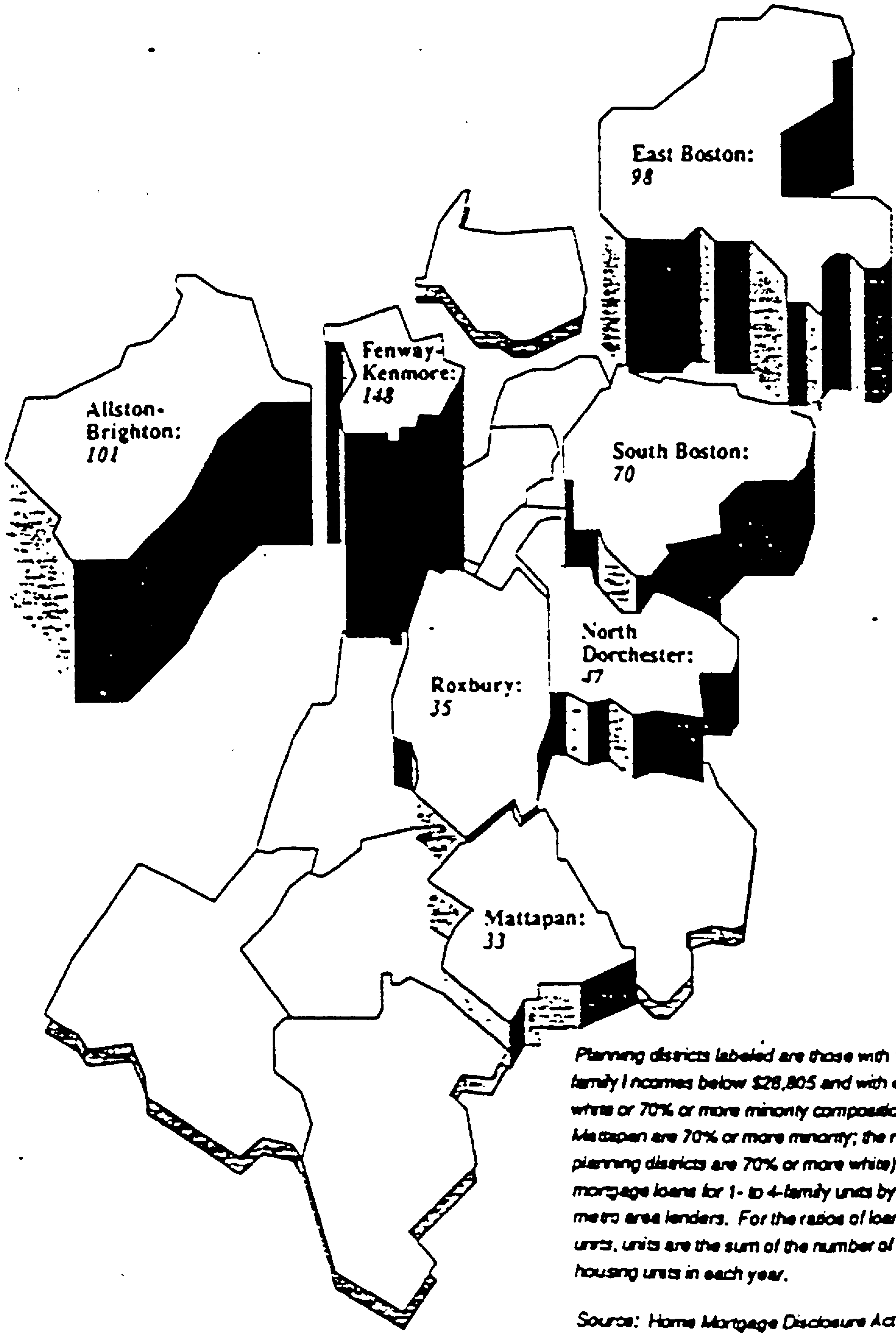
Data are for mortgage loans for 1- to 4-family units by Boston metro area regulated lenders. For the ratios of loans to 1,000 housing units, units are the sum of the number of potentially-owned units in each year. Neighborhoods compared all had estimated 1987 median family incomes less than $28,805. White neighborhoods are 70% or more white; minority neighborhoods are 70% or more minority. Lower Roxbury, with an income of $45,352, was included in the list of minority neighborhoods so that the table included all minority neighborhoods in Boston.

Source: Home Mortgage Disclosure Act data

Figure 1

Mortgage Lending in Lower-Income Planning Districts in Boston, 1981-1987

Loans per 1,000 Units



Planning districts labeled are those with 1987 median family incomes below $28,805 and with either 70% or more white or 70% or more minority composition (Roxbury and Mattapan are 70% or more minority; the remaining labeled planning districts are 70% or more white). Data are for mortgage loans for 1- to 4-family units by regulated Boston metro area lenders. For the ratios of loans to 1,000 housing units, units are the sum of the number of potentially-owned housing units in each year.

Source: Home Mortgage Disclosure Act Data

Mattapan, North Dorchester, Roslindale, Roxbury, South Boston, South Dorchester, South End, and West Roxbury. Because these areas are so large and each includes many different neighborhoods, it is useful to think of the distribution of loans by planning district as only a rough guide to lending patterns in the city. Nevertheless, the disparities in lending between predominantly white and predominantly minority planning districts with similar incomes are significant. Only 33 and 35 mortgage loans per 1,000 units are found in Roxbury and Mattapan, respectively. Loans per 1,000 units in white planning districts with comparable incomes, however, ranged from 47 to 148.

The lending gap between white and minority neighborhoods and census tracts with comparable incomes widens when government-guaranteed loans are subtracted from mortgage lending by banks in Boston.

Mortgage Lending Excluding Government-Guaranteed Loans

The lending gap between white and minority neighborhoods and census tracts with comparable incomes *widens* when government- guaranteed loans are subtracted from mortgage lending by banks in Boston. These government-backed loans require little or no risk for the lender because the government assumes all or most of the risk. For minority and white neighborhoods with comparable incomes, the ratio increases from 2.9 to 1 to 3.4 to 1.

Government-guaranteed loans include those backed by the Massachusetts Housing Finance Agency (MHFA), Veterans Administration (VA), and Federal Housing Administration (FHA).[16] The federal government provides insurance against all or part of the loss arising from a default on a VA or FHA mortgage. MHFA loans, though they are originated by banks, are financed by MHFA; thus, in the event of a default, MHFA bears the loss. A higher proportion of government-guaranteed mortgage lending by banks in Boston's minority neighborhoods suggests, in the context of the other findings of this report, that Boston area banks are less willing to assume the same level of risk in minority neighborhoods that they do in white neighborhoods.

[16] These loans include all loans provided by these agencies for the purchase of homes by owner-occupants.

Bank-by-Bank Comparison

Almost every major bank in Boston contributed to the racial disparity in mortgage lending we have observed in the banking industry as a whole. Table 3 shows citywide mortgage lending ratios (comparing the same white and minority neighborhoods with comparable incomes that are compared in Table 2) for the largest 20 banks in Boston. This table reveals that one major bank in the city, Haymarket Co-Operative Bank, made no mortgage loans in minority neighborhoods between 1981 and 1987. When government-guaranteed loans are excluded, the banks with the widest white/minority disparities in mortgage lending (among those banks that did provide mortgage loans in minority neighborhoods and excluding East Boston Savings Bank and South Boston Savings Bank, which serve only East Boston and South Boston, respectively) are Shawmut Bank, Baybank, Capitol Bank and Trust, and Provident Institution for Savings. These banks had ratios of 12.0 to 1, 11.7 to 1, 10.2 to 1, and 8.0 to 1, respectively.

Almost every major bank in Boston contributed to the racial disparity in mortgage lending we have observed in the banking industry as a whole.

Eight banks in Table 3 had white/minority lending ratios (excluding government-guaranteed loans) ranging from 1.8 to 1 to 3.5 to 1. Only two banks — First American Bank and Boston Five — had white/minority lending ratios of less than 1 to 1. In other words, these banks made more mortgage loans in minority neighborhoods than in white neighborhoods with comparable incomes.

Comparison of Banks and Other Lenders

Mortgage lending by banks shows a greater disparity by race than mortgage lending by all other major types of mortgage lender in the city — mortgage companies, credit unions, and sellers and other private lenders. Data on all 9,998 real estate transactions in Boston for the year 1986 (a year with a relatively large number of real estate transfers) show that mortgage companies, credit unions, and sellers/private lenders originated 42 percent of the mortgage loans for that year. Table 4 and Figure 2 present ratios of loans per 1,000 units between white and minority neighborhoods of comparable incomes for all types of lenders. (Mortgage loans in these neighborhoods totaled 2,442 loans.) The table and figure reveal that the overall ratio for all mortgage lending in 1986 was 2.0 to 1.

TABLE 3

MORTGAGE LENDING IN BOSTON BY BANK, 1981-1987

For 20 Largest Banks in Boston

BANK	WHITE/MINORITY NEIGHBORHOOD RATIO	RATIO EXCLUDING GOVERNMENT-GUARANTEED LOANS	TOTAL DEPOSITS (000)
Deposits Over $1 Billion			
The First National Bank of Boston	2.1:1	2.1:1	$7,482,003
Bank of New England	1.9:1	2.6:1	$6,029,462
State Street Bank	*	*	$3,983,204
Shawmut Bank	2.3:1	12.0:1	$3,131,746
Boston Five	0.9:1	0.9:1	$1,466,343
The Provident	4.2:1	8.0:1	$1,146,728
Home Owners	2.6:1	2.9:1	$1,105,742
Deposits Under $1 Billion			
United States Trust Company	1.8:1	1.8:1	$886,691
South Boston Savings Bank	7.4:1	7.6:1	$766,185
Neworld Bank for Savings	1.9:1	2.0:1	$754,818
First Mutual of Boston	2.5:1	2.4:1	$563,696
BayBank Boston, Harvard Trust, + Norfolk	11.7:1	11.7:1	$433,230
First American Bank	0.6:1	0.7:1	$386,451
Capitol Bank and Trust	10.2:1	10.2:1	$328,718
Haymarket Co-Operative Bank	NLMN	NLMN	$325,606
Boston Trade Bank	*	*	$245,511
Eliot Savings Bank	1.5:1	2.0:1	$228,320
East Boston Savings Bank	43.3:1	42.8:1	$217,651
Olympic International Bank and Trust	*	*	$179,480
Workingmen's Co-Operative Bank	3.6:1	3.5:1	$176,211
OVERALL RATIO — ALL BANKS	2.9:1	3.4:1	

Data are for mortgage loans for 1- to 4-family units. White and minority neighborhoods compared are those compared throughout this report. This table includes banks headquartered in Boston and their affiliates. Deposit size is the sum of deposits of branches located in Boston only for June 1988. NLMN means no loans in minority neighborhoods. An asterisk marks banks that made too few mortgages to calculate a ratio; Boston Trade Bank and Olympic International Bank and Trust are recently-created banks and State Street Bank has stopped making mortgage loans.

Sources: Decision Research Sciences, Inc. and Home Mortgage Disclosure Act data.

TABLE 4

MORTGAGE LENDING IN BOSTON BY TYPE OF LENDER, 1986

Loans per 1,000 Units

NEIGHBORHOOD	PLANNING DISTRICT	LOANS, ALL LENDERS	LOANS/ 1,000 UNITS, ALL LENDERS	BANK LOANS/ 1,000 UNITS	SELLER OR PRIVATE LOANS/ 1,000 UNITS	MORTGAGE CO. LOANS/ 1,000 UNITS	CREDIT UNION LOANS/ 1,000 UNITS
White Neighborhoods							
Ashmont	South Dorchester	103	61	33	4	22	2
Fields Corner East	South Dorchester	49	66	35	7	19	5
Lower Washington/Mt. Hope	Roslindale	62	81	56	3	20	3
Columbus Park/Andrew Sq	South Boston	35	89	61	8	15	5
Jamaica Central/Sumner Hill	Jamaica Plain	111	93	49	8	34	3
Eagle Hill	East Boston	130	95	49	4	23	19
Jeffries Point/Airport	East Boston	72	96	60	3	24	9
Central-Maverick Sq/	East Boston	66	104	69	14	16	5
Commonwealth	Allston-Brighton	528	177	92	19	60	6
D St/West Broadway/North	South Boston	132	191	117	20	38	16
Fenway	Fenway-Kenmore	177	198	86	13	95	3
West Fens	Fenway-Kenmore	189	289	93	87	99	9
Downtown/Central/West End	Central	276	312	174	14	123	1
AVERAGES		148	141	73	14	47	7
Minority Neighborhoods							
Franklin Field North	Roxbury	17	46	27	11	8	0
Washington Park	Roxbury	51	47	15	14	13	6
Southern Mattapan	Mattapan	81	51	25	8	18	1
Franklin Field South	Mattapan	51	56	22	15	15	3
Wellington Hill	Mattapan	51	72	37	10	23	3
Highland Park	Roxbury	20	78	43	19	8	8
Sav-Mor	Roxbury	38	81	36	17	23	4
Dudley/Brunswick King	Roxbury	57	84	25	23	25	10
Codman Square/East WeCan	South Dorchester	135	111	54	9	45	3
Lower Roxbury	Roxbury	10	270	54	8	19	3
Mission Hill Projects	Jamaica Plain	1	333	0	0	333	0
AVERAGES		47	70	31	13	22	4
WHITE/MINORITY RATIOS			2.0	2.8	1.1	2.1	1.6

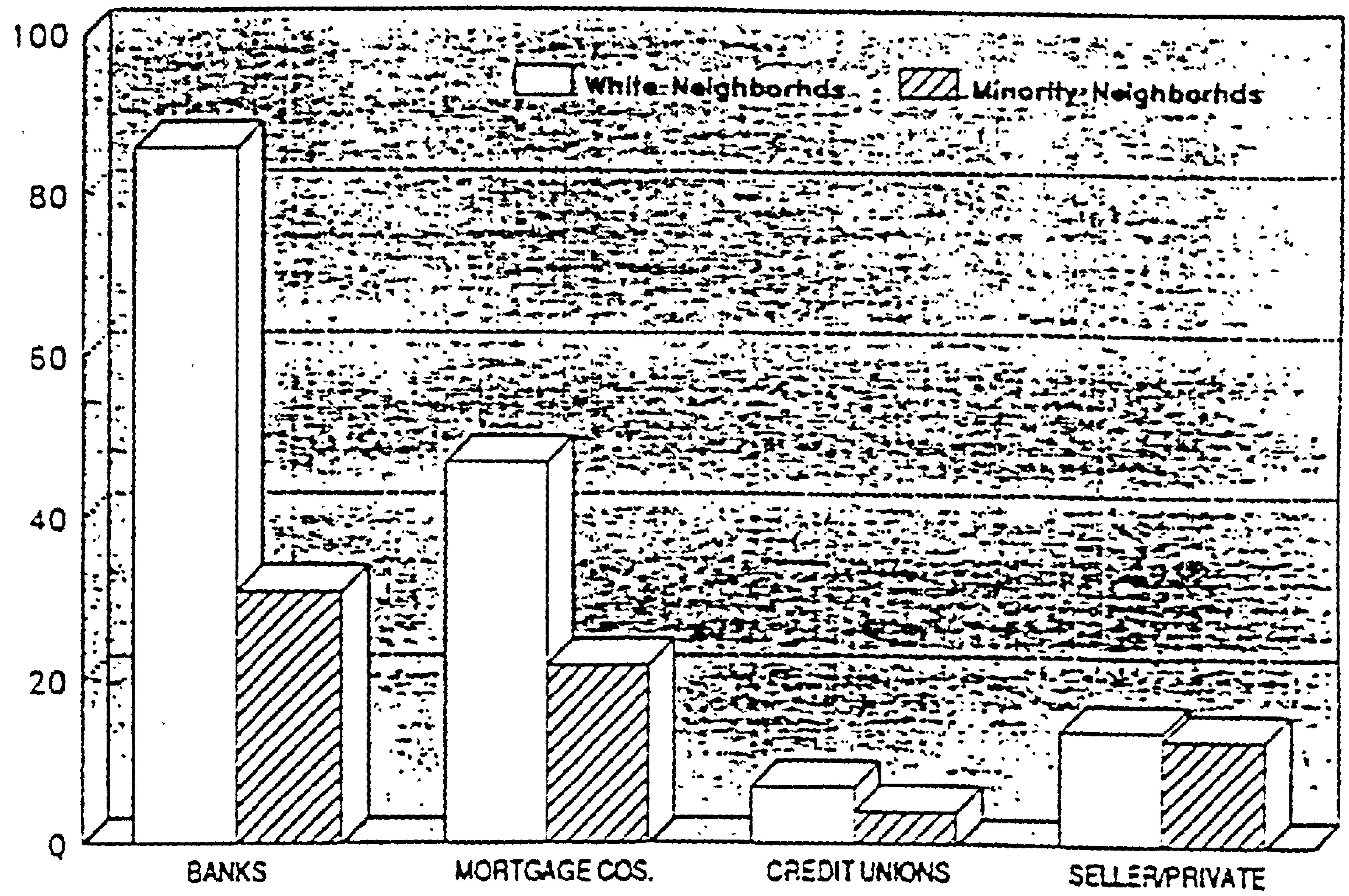
Data are for all financed sales (including commercial and industrial). Neighborhoods compared all had estimated 1987 median family incomes less than $28,805. White neighborhoods are 70% or more white; minority neighborhoods are 70% or more minority. Lower Roxbury, with an income of $45,352, was included in the list of minority neighborhoods so that the table included all minority neighborhoods in Boston. The overall ratio for banks (2.8) differs slightly from that for banks in other neighborhood tables (2.9) because a different data source (County Home Data, which includes all lenders, not just banks) was used.

Source: County Home Data

Figure 2

Mortgage Lending In Boston by Type of Lender, 1986

Loans Per 1,000 Units



Data are for loans for all financed sales (including commercial and industrial). Neighborhoods compared are those with median family incomes below $28,805 in 1987. So that all minority neighborhoods were included in this comparison, the only minority neighborhood with median family income above this level — Lower Roxbury — was included. For the ratio of loans to 1,000 units, units are the sum of the number of potentially-owned housing units in each year. White census tracts are 70% or more white; minority census tracts are 70% or more minority.

Source: Home Mortgage Disclosure Act data

The ratio for banks was 2.4 to 1 during this year. For all other lender types, the ratios were smaller. For seller/private financing, the ratio was 1.1 to 1; for credit unions, it was 1.6 to 1; and for mortgage companies, it was 2.1 to 1. These results suggest that bank practices contribute to racial disparities in overall mortgage lending patterns in the city more than those of any other major type of mortgage lender.

Bank practices contribute to racial disparities in overall mortgage lending patterns in the city more than those of any other major type of mortgage lender.

Mortgage Lending by Census Tract

To evaluate lending patterns in greater detail than the neighborhood and planning district level — specifically with regard to incomes and race — this study looks at the census tract level. The results, which are shown in Table 5 and Figure 3, confirm the results which were reached through the neighborhood-by-neighborhood comparison. The table and figure reveal that *racial disparities in mortgage lending are greatest among lower-income census tracts*. Among census tracts with median family incomes in the first decile (between $9;698 and $16,605 in 1987) and the second decile (between $16,606 and $23,511), the ratio of loans per 1,000 units in white compared to minority neighborhoods was above 3 to 1 — markedly higher than the 2.1-to-1 ratio for all white and minority census tracts with comparable incomes. This means that, among the poorest areas of the city, white neighborhoods were more than three times as likely to receive a mortgage loan from a bank as minority neighborhoods with the same income. Thus, it is in the poorest minority census tracts that, relative to the poorest white census tracts, banks are least active with respect to mortgage lending.

The overall ratio between white and minority census tracts with comparable incomes — 2.1 to 1 — corresponds to the results at the neighborhood level. Tract-by-tract results indicate that this ratio is slightly lower than that for neighborhoods because there are some minority census tracts in white neighborhoods in which slightly higher levels of lending are found than in census tracts in minority neighborhoods. It appears that banks direct more mortgage lending to minority census tracts in white neighborhoods than to minority census tracts in minority neighborhoods.

When government-guaranteed loans are excluded, the white/minority lending gap for census tracts increases from 2.1 to 1 to 2.4 to 1.

TABLE 5

MORTGAGE LENDING IN BOSTON BY INCOME, 1981-1987[17]

	Loans per 1,000 Units		
1987 Income	White Census Tracts	Minority Census Tracts	White/ Minority Ratio
\$9,698-\$16,605	122	40	3.2
\$16,606-\$23,511	127	34	3.7
\$23,512-\$30,418	80	39	2.0
\$30,419-\$37,324	59	32	1.8
Citywide White/Minority Ratio:			2.1
Ratio Excluding Government- Guaranteed Mortgages:			2.4

Home Improvement Lending

In contrast, home improvement lending shows a pattern opposite to that of mortgage lending: banks actually provided *more* home improvement loans per 1,000 units in Boston's minority census tracts than they did in white census tracts with comparable incomes. Table 6 and Figure 4 show that the ratio of home improvement loans per 1,000 units between white and minority census tracts was .55 to 1 — in other words, almost twice as many home improvement loans per 1,000 units were found in minority census tracts as in white census tracts. The number of home improvement loans per 1,000 units was higher in minority census tracts than in white census tracts for all four income deciles examined.

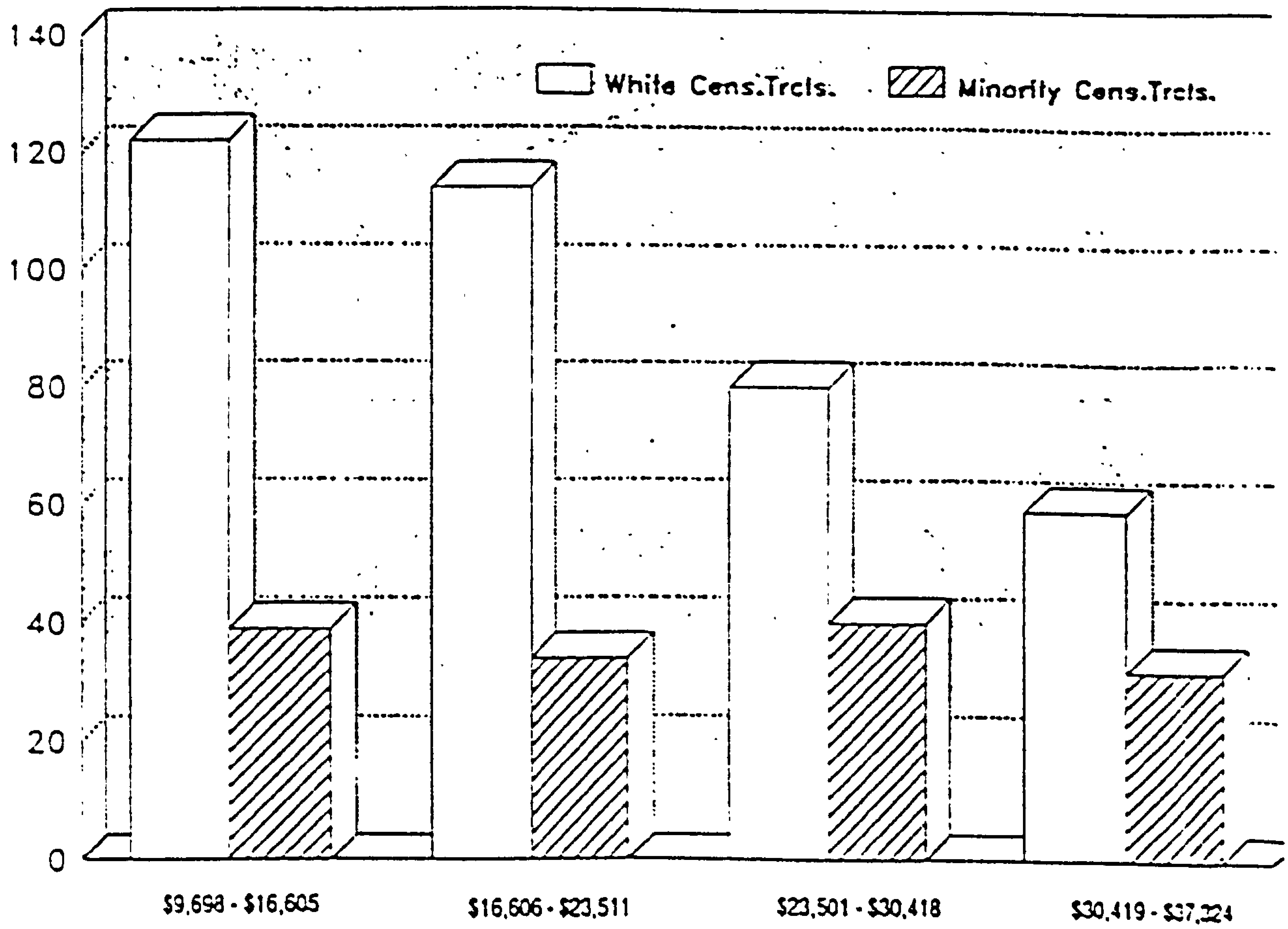
High levels of home improvement lending in an area indicate that there are creditworthy persons residing there and that banks are willing to provide these persons with higher-interest, shorter-term home improvement loans, even though they are not willing to provide them with significant

[17]For Tables 5 and 6, data are for mortgage and home improvement loans for one-to four-family units by Boston metro area regulated lenders. For the ratio of loans to 1,000 units, units are the sum of the number of potentially-owned housing units in each year. White census tracts are 70 percent or more white; minority census tracts are 70 percent or more minority. Source: Home Mortgage Disclosure Act data.

Figure 3

Mortgage Lending in Boston By Income, 1981-1987

Loans per 1,000 Units



Median Family Income

Data are for mortgage loans for one- to four-family units by regulated lenders in the Boston metro area. For the ratio of loans to 1,000 units, units are the sum of the number of potentially-owned housing units in each year. White census tracts are 70% or more white; minority census tracts are 70% or more minority.

Source: Home Mortgage Disclosure Act data

numbers of mortgage loans (Greene 1980:33-34). Such a high ratio of home improvement loans indicates that the condition (and therefore value) of homes in minority neighborhoods is increasing — and that the suitability of these homes for sale and mortgage financing is increasing as well. Ordinarily, one would expect banks to provide adequate numbers of mortgage loans in neighborhoods where homeowners are increasing housing values through home improvements.

TABLE 6
HOME IMPROVEMENT LENDING IN BOSTON BY INCOME, 1981-1987

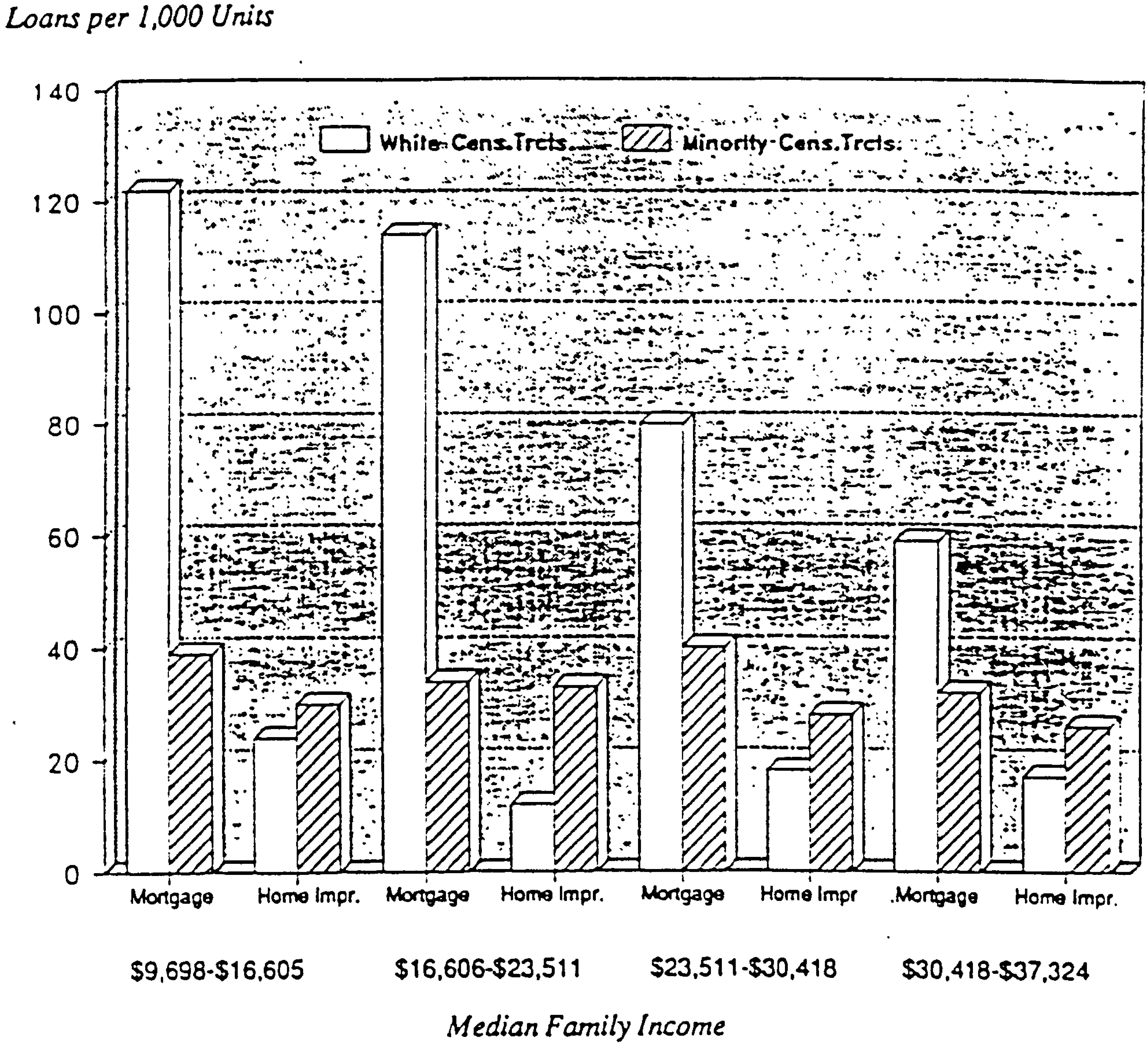
1987 Income	*Loans per 1,000 Units* White Census Tracts	Minority Census Tracts	White/ Minority Ratio
$9,698-$16,605	24	30	.88
$16,606-$23,511	12	33	.36
$23,512-$30,418	18	28	.64
$30,419-$37,324	17	26	.63
Citywide White/Minority Ratio:			.55

Unmet Mortgage Demand

High levels of seller and other private financing in minority neighborhoods compared with white neighborhoods with comparable incomes in 1986 — a year in which there was an extremely high number of transactions — indicate that there has been a significant market for mortgage loans in minority neighborhoods that has not been supplied by banks. Data on all mortgage loans in Boston in 1986, shown in Table 7, reveal that the proportion of mortgages originated by sellers and other private parties was almost twice as high in minority neighborhoods as it was in white neighborhoods with comparable incomes. In 1986, 10 percent of all mortgage financing in Boston was seller- or privately financed. In minority neighborhoods, seller and private financing comprised 19 percent of all mortgage loans. In contrast, the proportion of seller and private financing in white neighborhoods with comparable incomes was only 10 percent. In more than half of the white neighborhoods, the percentage of

Figure 4

Mortgage and Home Improvement Lending in Boston by Income,1981-1987



Data are for mortgage and home improvement loans for one- to four-family units by regulated lenders in the Boston metro area. For the ratio of loans to 1,000 units, units are the sum of the number of potentially-owned housing units in each year. White census tracts are 70% or more white; minority census tracts are 70% or more minority.

Source: Home Mortgage Disclosure Act data

TABLE 7

MORTGAGE LENDING IN BOSTON BY TYPE OF LENDER, 1986

Percent Share of Market

NEIGHBORHOOD	PLANNING DISTRICT	# LOANS, 1981-87	% BANK LOANS	% SELLER OR PRIVATE LOANS	% MORTGAGE CO. LOANS	% CREDIT UNION LOANS
White Neighborhoods						
Jeffries Point/Airport	East Boston	72	63%	3%	25%	10%
Lower Washington/Mt. Hope	Roslindale	62	69%	3%	24%	3%
Eagle Hill	East Boston	130	52%	4%	25%	20%
Downtown/Central/West End	Central	276	56%	4%	39%	0%
Ashmont	South Dorchester	103	53%	6%	37%	4%
Fenway	Fenway-Kenmore	177	44%	7%	48%	2%
Columbus Park/Andrew Sq	South Boston	35	69%	9%	17%	6%
Jamaica Central/Sumner Hill	Jamaica Plain	111	52%	9%	36%	3%
Fields Corner East	South Dorchester	49	53%	10%	29%	8%
Commonwealth	Allston-Brighton	528	52%	11%	34%	4%
D St/West Broadway/North	South Boston	132	61%	11%	20%	8%
Central-Maverick Sq/	East Boston	66	67%	14%	15%	5%
West Fens	Fenway-Kenmore	189	32%	30%	34%	3%
AVERAGES:		148	52%	10%	33%	5%
Minority Neighborhoods						
Mission Hill Projects	Jamaica Plain	1	0%	0%	100%	0%
Codman Square/East WeCan	South Dorchester	135	49%	8%	40%	3%
Wellington Hill	Mattapan	51	51%	14%	31%	4%
Southern Mattapan	Mattapan	81	49%	15%	35%	1%
Sav-Mor	Roxbury	38	45%	21%	29%	5%
Franklin Field North	Roxbury	17	59%	24%	18%	0%
Highland Park	Roxbury	20	55%	25%	10%	10%
Franklin Field South	Mattapan	51	39%	27%	27%	6%
Dudley/Brunswick King	Roxbury	57	30%	28%	30%	12%
Washington Park	Roxbury	51	31%	29%	27%	12%
Lower Roxbury	Roxbury	10	20%	40%	10%	30%
AVERAGES:		47	44%	19%	31%	6%

Data are for loans for all financed sales (including commercial and industrial). Neighborhoods compared all had estimated 1987 median family incomes less than $28,805. White neighborhoods are 70% or more white; minority neighborhoods are 70% or more minority. Lower Roxbury, with an income of $45,352, was included in the list of minority neighborhoods so that the table included all minority neighborhoods in Boston.

Source: County Home Data

seller financing did not exceed 10 percent. In 7 of the 10 minority neighborhoods, the proportion of seller and private financing was greater than 20 percent.

From a consumer perspective, seller financing is less desirable than mortgage financing from banks. Typically, sellers provide financing which is inexpensive initially but which includes a "balloon payment" after a number of years: a seller may have provided a loan to a buyer to be able to complete a sale, but is unlikely to want to hold the mortgage loan for very long. Buyers of seller-financed properties are not protected by the appeals process that covers other borrowers in the event of a foreclosure. In addition, seller and private financing often do not allow a buyer to create a "credit history" — an official record of loan payments that is used by other lenders in lending decisions. Therefore, borrowers who receive seller or private financing may have demonstrated responsibility towards the mortgage loan but may find themselves unable to use a record of that responsibility to obtain a home improvement loan, a mortgage loan from a bank or other lending institutions when they resell their home, an auto loan, or other types of loans.

High levels of seller and other private financing in minority neighborhoods indicate that there has been significant market formortgage loans in minority neighborhoods that has not been supplied by banks.

Seller financing is typically provided when bank mortgage interest rates rise; in 1986, however, mortgage interest rates were falling.[18] Moreover, the white and minority neighborhoods compared have similar incomes, so the percentage of seller financing at any given interest rate should be the same. Seller financing is also typical of weak housing markets — as an incentive for buyers. Boston, however, had an extremely strong housing market in 1986. Therefore, none of the factors which typically explain high rates of seller and other private financing explain the disparate rates of seller and private financing in white and minority neighborhoods found in this report. This contradiction can only be explained as a type of market failure; again, restricted access to credit in minority neighborhoods from lenders other than sellers or private parties — i.e. racial disparities in mortgage lending by lending institutions — appears to be a key explanatory factor.

[18] For instance, studies have shown that, nationally, the incidence of seller financing increases dramatically when interest rates rise (Guttentag 1984; Nothaft 1985).

Table 7 also shows that, among the other primary types of non-seller and non-private mortgage financing (bank, mortgage company, and credit union financing), bank financing was the only type of financing which comprised a significantly lower proportion of mortgage financing in minority neighborhoods than in white neighborhoods with comparable incomes. Bank financing comprised 52 percent of the mortgage financing in the white neighborhoods but only 44 percent in the minority neighborhoods. Mortgage company financing represented 33 percent of the mortgage financing in white neighborhoods and 31 percent in minority neighborhoods. Credit union financing represented 5 percent of the mortgage financing in white neighborhoods and a higher proportion — 6 percent — in minority neighborhoods. It appears, then, that it may be a lack of *bank* mortgage financing that is driving borrowers in minority neighborhoods to sellers and other private parties for mortgages.

Thus, there is a demonstrable market for mortgage loans in minority neighborhoods that is being supplied, in part, by sellers and other private parties. Borrowers may have had to resort to seller or private financing because they have been unable to obtain bank financing, which is the only other type of financing that comprises a significantly lower proportion of mortgage financing in minority neighborhoods than in white neighborhoods with similar incomes.

Mortgage Lending and Condominium Conversions

While banks failed to meet the market demand for mortgage loans in minority neighborhoods between 1981 and 1987, they loaned heavily in lower-income white neighborhoods in which there were high levels of condominium conversions during these years. High levels of condominium conversion in Boston has eroded the city's rental stock and hurt overall housing affordability.[19] Thus, mortgage lending in Boston by Boston area banks presents an anomalous pattern: while mortgage loans appear to be freely available in lower-income white neighborhoods undergoing high rates of condominium conversions, much fewer mortgages are available in minority neighborhoods, where property values are lower and where there is an untapped market for mortgage loans.

[19]Other studies have shown that many converted condominiums in Boston, though less expensive than single-family homes, have been unaffordable for most of the city's low- and moderate-income families (Achtenberg and Stevens 1988).

Table 8 shows the proportion of the total ownership housing stock represented by condominiums created between 1981 and 1987 in the white neighborhoods with incomes comparable to those of the city's minority neighborhoods (neighborhoods with incomes below $28,805 in 1987). In 1987, 80 percent of the condominiums in Boston had been created between 1981 and 1987 — a total of 25,103 condominiums (Achtenberg and Stevens 1988). Over 80 percent of the condominiums citywide are conversions from rental units rather than new condominiums (Goetze 1988). Table 8 also shows levels of mortgage lending for each of these neighborhoods.[20]

Mortgage lending in Boston by Boston area banks presents an anomalous pattern: while mortgage loans appear to be freely available in lower-income white neighborhoods undergoing high rates of condominium conversions, much fewer mortgages are available in minority neighborhoods, where property values are lower and where there is an untapped market for mortgage loans.

In some of the lower-income white neighborhoods shown in Table 8, it appears that very high proportions of the rental stock was converted to condominiums between 1981 and 1987. In 1987, 92 percent, 88 percent, 85 percent, and 82 percent of the ownership units in the West Fens, Commonwealth, Fenway, and Downtown/Central/West End neighborhoods, respectively, were condominiums created between 1981 and 1987. These neighborhoods all received high levels of mortgage lending by banks. The number of mortgage loans per 1,000 units was 192 in the West Fens neighborhood, 187 in the Commonwealth neighborhood, 160 in the Fenway neighborhood, and 171 in the Downtown/Central/West End neighborhood. The average number of loans per 1,000 units in the neighborhoods shown was 102. Notably, these neighborhoods are all in the lowest income category we have used in this study; residents of these neighborhoods have the most to lose from the erosion of the affordable rental stock caused by condominium conversions.

Thus, banks appear to have participated heavily in the wave of condominium conversions between 1981 and 1987 that eroded much of the rental stock affordable to low- and moderate-income families in the city.

[20]Though high levels of condominium conversions in some lower-income white neighborhoods explain some of the racial disparities in mortgage lending by banks, they do not explain all of it: twice as many mortgage loans per 1,000 units were found in those white neighborhoods in Table 7 with fewer than 8 percent 1981-87 condominiums compared with Boston's minority neighborhoods (8 percent is the highest percentage of 1981-87 condominiums found in minority neighborhoods).

TABLE 8

PERCENT CONDOMINIUMS IN LOWER-INCOME WHITE NEIGHBORHOODS IN BOSTON, 1987

NEIGHBORHOOD	PLANNING DISTRICT	# OWNER-OCC. UNITS, 1980	# NEW CONDOS, 1981-87	% CONDOS, 1987	# LOANS/ 1,000 UNITS
Fields Corner East	South Dorchester	740	9	1%	53
Lower Washington/Mt. Hope	Roslindale	738	38	5%	74
Eagle Hill	East Boston	1,327	68	5%	113
Ashmont	South Dorchester	1,633	87	5%	44
Central-Maverick Sq/	East Boston	605	47	7%	104
Jeffries Point/Airport	East Boston	679	108	14%	96
Columbus Park/Andrew Sq	South Boston	351	62	15%	51
D St/West Broadway/North	South Boston	570	185	25%	89
Jamaica Central/Sumner Hill	Jamaica Plain	961	344	26%	82
Downtown/Central/West End	Central	218	1,001	82%	171
Fenway	Fenway-Kenmore	190	1,059	85%	160
Commonwealth	Allston-Brighton	514	3,693	88%	187
West Fens	Fenway-Kenmore	73	872	92%	192
AVERAGES:		661	583	47%	102

Neighborhoods compared had estimated 1987 median family incomes less than $28,805. White neighborhoods are 70% or more white; minority neighborhoods are 70% or more minority. Lower Roxbury, with an income of $45,352, was included in the list of minority neighborhoods so that the tabe includes all minority neighborhoods in Boston.

Sources: BRA Research Department, U.S. Bureau of the Census, and Home Mortgage Disclosure Act dat

Rather than allocating staff time to the marketing and origination of loans for the construction and purchase of new homes, banks have instead originated mortgage loans for the purchase of apartments converted to condominiums — and possibly the purchase and conversion of entire apartment buildings by investors as well. Rather than investing capital in neighborhoods in a way which would preserve affordability and strengthen the economy, what investment has been made in lower- income communities has been, on the whole, detrimental to the residents of those communities.

Since there is less access to mortgage loans in minority neighborhood, there may be less access to construction loans as well, because the repayment of a construction loan depends on the availability of mortgage loans.

Construction Lending

Since there is less access to mortgage loans in minority neighborhoods, there may be less access to construction loans as well, because the repayment of a construction loan depends on the availability of mortgage loans. In locations in which banks appear to avoid mortgage lending, they are likely to avoid construction lending as well.

Interviews with developers of affordable housing in minority neighborhoods indicate that there may, indeed, be a racial disparity in construction lending as well as in mortgage lending. Many of the affordable housing projects initiated by the City of Boston have been in minority neighborhoods. Boston has the reputation of having one of the most sophisticated and proven networks of public and private affordable
housing development organizations in the country. Interviews conducted as part of this study with many of Boston's developers of assisted housing indicate, however, that loan officers and other bank personnel in Boston are often reluctant to finance assisted housing construction projects. The complexity of affordable housing development is often cited as a reason why banks are reluctant to finance such development. However, this financing is certainly not more complex than commercial development or corporate transactions.

Summary

Efforts of the City and community leaders to preserve and expand affordable housing in Boston have been significant. Many of the projects to create affordable housing — such as the linkage program and the Boston Housing Partnership — are public- private partnerships. Banks have played a role in some of these efforts. In addition, Boston's banks have played an important role in providing the capital to make Boston's economic boom possible.

Clearly, however, bank lending activity has had effects contrary to those of public-private partnerships to expand housing opportunities. Boston banks originated far fewer mortgage loans per 1,000 housing units in minority neighborhoods than in white neighborhoods with comparable incomes between 1981 and 1987. This has occurred despite a relatively healthy market in minority neighborhoods for mortgage loans and efforts which have improved the condition and values of homes in these neighborhoods. The result is that many property buyers in Boston's minority neighborhoods must resort to seller or other private financing — forms of financing that are less desirable, from a consumer perspective, than bank financing. In other words, there is a demonstrable market for mortgage loans in Boston's minority neighborhoods that banks have not tapped.

In addition, there may be potential home buyers — and possibly housing developers — in minority neighborhoods who have not even attempted to obtain a loan from a bank because they perceive that it would not be possible to do so. This is called "discouraged demand". The fact that mortgage loans from banks are less available in minority neighborhoods may also discourage would-be home sellers from putting their homes on the market.

Moreover, where banks have provided large amounts of mortgage financing in white neighborhoods, they have done so in a way which facilitates high levels of condominium conversion. They have done this while, at the same time, failing to support many community groups' efforts to build affordable housing projects. This behavior has eroded the supply of affordable housing for Boston's low- and moderate-income families.

The final sections of this report will look at some of the factors which may have created these results and suggest some remedies.

4. *Factors that Contribute to Neighborhood Variations in Home Mortgage Lending*

How do we explain the market failures described in Section 3 of this report? To identify bank policies and practices which may have resulted in the lending patterns we have observed, lengthy discussions were held with lenders, community leaders, and local developers. In addition, a survey of local real estate agents was conducted.[21] These efforts were supplemented with previously-conducted studies and other data. As a result, we have identified five key bank policies and practices which affect neighborhood lending patterns: lack of bank branches and automated teller machines in minority neighborhoods; insufficient minority hiring practices among banks; use of appraisers who are not familiar with Boston's minority neighborhoods; inappropriate mortgage loan products; and inadequate loan marketing through real estate agents.[22]

According to the state Division of Banks, state- and federally-chartered banks have only 9 branches in Roxbury and Mattapan. This is only 4.1 percent of the 219 branches in the city as a whole.

Lack of Bank Branches and Automated Teller Machines in Minority Neighborhoods

Many consumers establish banking relationships based upon the convenience of banking services. Therefore, banks are likely to originate more mortgages in those communities in which they have bank branches. According to the state Division of Banks, however, state- and federally-chartered banks have only 9 branches in Roxbury and Mattapan. This is only 4.1 percent of the 219 branches in the city as a whole; in 1980, the populations of these two neighborhoods comprised 16.6 percent of the city's population (O'Brien 1985) (see Table 9).

[21] For the real estate agent survey, 30 questionnaires were mailed to real estate agents in every Boston neighborhood. Thirteen agents responded. These agents do business in every Boston neighborhood except East Boston and Fenway-Kenmore.

[22] Another factor external to banks that may bias mortgage lending patterns is racial discrimination in the housing market. Racial discrimination, however, can affect lending in minority neighborhoods both ways: it can reduce housing demand in minority neighborhoods by limiting the mobility of minority families, but it can also increase housing demand within minority neighborhoods by restricting the minority family that does decide to buy a home to minority neighborhoods (a phenomenon called "steering").

Moreover, state- and federally-chartered banks have only 15 automated teller machines (ATMs) in Roxbury and Mattapan. This is only 3.7 percent of the 409 ATMs in the city as a whole. The proliferation of check-cashing stores in Boston's minority neighborhoods, many of which charge as much as 10 percent to cash a small check, indicates that there is a need for bank branches and ATMs in these neighborhoods.

In addition to being a causal factor in the racial disparity in mortgage lending in Boston, the lack of bank branches and ATMs is, in and of itself, a contravention of the CRA: the CRA requires banks to provide adequate services as well as loans in every neighborhood in which it is chartered to do business.

TABLE 9

BANK BRANCHES AND ATMS IN BOSTON'S MINORITY NEIGHBORHOODS

	Branches	ATMs
Mattapan	4	6
Roxbury	5	9
BOSTON	219	409
% of Boston	4.1%	3.7%

Source: Massachusetts Division of Banks

The siting of bank branches and ATMs in minority neighborhoods would make effective marketing of mortgage loans in those neighborhoods much more likely. In addition, loan officers assigned to bank branches in minority neighborhoods would become more familiar with those neighborhoods and would, as a result, be able to assess risk more accurately in those neighborhoods.

Minority Hiring Practices

Bank employees who are not familiar with minority neighborhoods are sometimes unable to assess risk accurately in these neighborhoods. Individuals who are not familiar with minority neighborhoods may have misconceptions about the market conditions in these areas. In interviews conducted for this study, developers said that most of the bank officials they deal with on projects, particularly loan officers, are white and many lacked knowledge of minority neighborhoods. Our interviews also suggest that some bank loan officers in Boston are reluctant to even visit the city's minority neighborhoods.

In this regard, it is revealing that the results of this study show that, next to sellers and other private parties, credit unions showed the least racial disparity in mortgage lending in Boston's neighborhoods in 1986 (see Section 3): credit union loan committees are often composed of credit union members, many of whom are from the neighborhoods in which their credit union lends.

Increased hiring of residents of minority neighborhoods by banks to increase the representation of these neighborhoods among their loan officers would reduce any lending disparities that result from an inaccurate assessment of the lending risks in minority neighborhoods.

Use of Appraisers who are not Familiar with Boston's Minority Neighborhoods

Appraisers estimate the value of property against which banks provide mortgage loans by comparing it with the known value of similar properties. If appraisals systematically undervalue property, buyers will be unable to borrow enough mortgage money to meet the asking prices for homes. Systematic undervaluation by appraisers can therefore limit opportunities for mortgage credit.

Some banks use their own staff for appraisals; many hire outside appraisers to perform appraisals. In addition to performing specific appraisals, appraisers function as the "eyes and ears" of a bank, keeping the bank informed of expected neighborhood real estate trends (Greene 1981).

Appraisers whose businesses are primarily located in suburbs and who may not be familiar with Boston's minority neighborhoods may make inaccurate judgements about these neighborhoods based upon incomplete information and prejudice; this may result in the undervaluation of property in these neighborhoods. Banks are less likely to originate a loan secured by property that has been undervalued because the amount of the loan they would be able to make would be small and the buyer might not be able to afford the high down payment that would be required to make up the difference between the loan amount and the cost of the property. Thus, bank use of appraisers who undervalue property in minority neighborhoods restricts the flow of mortgage credit in these neighborhoods.

Information provided by 9 of the 18 largest banks in Boston that originate mortgage loans directly reveals that only 7 (11 percent) of the 64 appraiser business selections by these banks for Boston area appraisals are based in Boston. Only one of the appraiser businesses located in Boston is based in an area that contains minority neighborhoods.

Information provided by 9 of the 18 largest banks in Boston that originate mortgage loans directly reveals that only 7 (11 percent) of the 64 appraiser business selections by these banks for appraisals in areas including Boston are based in Boston. Only one of the appraiser businesses located in Boston is based in an area that contains minority neighborhoods — Dorchester. Because appraisers based in cities and towns outside of Boston are often not familiar with or comfortable in minority neighborhoods, they may undervalue property in these neighborhoods. Indeed, in the real estate agent survey that was conducted as part of this study, 25 percent of the respondents claim that they have recently seen indications of property undervaluation, or "lowballing". Thus, it is likely that the current selection of real estate appraisers by Boston's major banks is, in some cases, limiting the availability of home mortgage loans in the city's minority neighborhoods.

Inappropriate Mortgage Loan Products

The experience of the state's Mortgage Review Boards reveals that many otherwise creditworthy borrowers in the state are denied mortgages for no other reason than that they do not fit secondary mortgage market credit and property standards: the inability of mortgage applicants toconform with these standards is the single most frequent reason for appealed loan denials.[24] If banks offered mortgage loans with more flexible underwriting standards than those required by the secondary market, they

[24] Mortgage Review Boards are regional committees of community representatives and bankers appointed by the state Commissioner of Banks to review appeals of mortgage denials.

may have originated more mortgage loans in lower-income minority neighborhoods than we have shown they did between 1981 and 1987. It is an overreliance on the secondary mortgage market that, in part, prevents banks from offering such loans.

It is an overreliance on the secondary mortgage market that, in part, prevents banks from offering loans that meet the credit needs of minority neighborhoods.

The secondary mortgage market is composed of institutions that buy mortgage loans. Lenders sell groups of mortgages on the secondary market because it provides them with capital with which to make additional mortgage loans. The largest share of mortgages sold on the secondary market are purchased by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). These are quasi-public entities created by the federal government to increase the availability of mortgage capital nationwide. When lenders sell their mortgage loans, they forego the interest they would earn on the loan if they had kept it in their own portfolio but continue to earn a fee for servicing the loan.

In the 1970's, only a small proportion of mortgages were sold on the secondary market. Today lenders sell most of the mortgages they originate on the secondary market. This has direct implications for low- and moderate-income home buyers nationally and particularly in Boston. National standards set by secondary market entities for the loans they purchase may not be appropriate locally and can act as a significant barrier to obtaining home mortgages for low- and moderate-income families wishing to buy homes in areas where housing prices are high.

For instance, Fannie Mae and Freddie Mac specify that the percentage of gross income that can be applied to housing costs should be 25 to 28 percent for the mortgages they purchase. Because rents are extremely high in Boston, however, low- and moderate-income renters in Boston with good credit histories routinely pay 40 percent and more of their incomes towards housing. Under Fannie Mae's and Freddie Mac's conventional standards, these renters would not be able to pay similar percentages of their incomes toward monthly payments on a mortgage.

Moreover, families who don't have quite enough money for a 20 percent down payment are frequently unable to obtain mortgages because the mortgages obtained by these families — which would have a 90 or 95 percent loan-to-value ratio — would not be saleable on the secondary market. Limitations such as these — which often do not affect the risks inherent in making a particular loan — hit low- and moderate-income home buyers hardest. Secondary market standards are also inappropriate for rural areas because they often require property to have amenities typical of urban areas — such as paved roads.

Also, secondary market criteria count only a limited portion of rents from tenants in resident-owned triple-deckers as rental income, in effect disqualifying mortgages on such properties from resale on the secondary market. Thus, national criteria strongly favor condominium mortgage loans (which resemble single-family loans) but discourage mortgage lending on resident-owned triple- deckers. Boston is unique among major cities in the high proportion of its housing represented by triple-deckers. Since much of the city's triple decker inventory is found in the city's minority neighborhoods, secondary market standards may have contributed to the racial disparity in bank lending in Boston.

Secondary mortgage market income standards, credit standards, and property requirements are sometimes tightened nationally in response to economic downturns in particular regions of the country — such as the recent downturn in Texas and other energy-producing states. For instance, the percentage of gross income that can be applied to housing costs was recently reduced by Fannie Mae and Freddie Mac from 30 percent to 25-28 percent. In areas which are economically strong and facing high housing prices, these types of changes are inappropriate.

Boston banks do not need to sell all of their mortgage loans to the secondary market. The secondary market was originally created only as an alternative source of capital funds for the tightly-strapped home mortgage market of the early to middle 1970's. If they choose to, banks can keep all or many of their loans in their own portfolios, but most banks increasingly seek to sell every mortgage loan they make on the secondary market. Banks can set their own standards for the loans they hold in their own portfolios. Also, loans that do not conform to secondary market standards can sometimes be sold on the secondary market after they have "seasoned" for a few years in a lender's portfolio.

Inadequate Loan Marketing through Real Estate Agents

For most home buyers seeking mortgage financing, the first contact is the real estate agent. The importance of real estate agents in helping borrowers identify their financing options has increased in recent years as the variety of mortgage lenders has increased: mortgage companies, in particular, have become significant mortgage lenders since the advent of the secondary mortgage market, but insurance companies, finance companies, and other entities have become significant mortgage lenders as well (Fruscello 1989).

The real estate agent mail survey conducted in conjunction with this study found that real estate agents citywide refer only a small proportion of their home buyers to banks for mortgage loans. Though this, in and of itself, does not bias mortgage lending by banks away from minority neighborhoods, low levels of bank-real estate agent contacts are more detrimental in neighborhoods — such as Boston's minority neighborhoods — in which banks do not do much other marketing. The real estate agent survey revealed that, on the average, real estate agents in Boston refer about 23 percent of their buyers to banks, 62 percent to mortgage companies, 7 percent to credit unions, and none to savings and loans.

These results could be interpreted in several ways. They may indicate that banks, in general, do not contact real estate agents frequently to market their mortgage loans in Boston or that their marketing through real estate agents is ineffective. Mortgage companies may be contacting real estate agents much more aggressively. The results could also mean that, regardless of how effectively banks are developing relationships with real estate agents, agents are choosing to refer most of their buyers to other mortgage lenders because banks do not meet their clients' needs. Real estate agents want to refer home buyers to lenders who provide competitively-priced loans. They also want lenders who provide a flexible array of mortgage products so that they can help home buyers with a variety of needs obtain financing (Fruscello 1989). Banks can increase their contacts in minority neighborhoods by developing products that meet the particular financing needs of these neighborhoods.

5. *Recommendations*

The previous section reveals that disparities in bank lending in Boston are due to a constellation of factors. All of these factors — lack of bank branches and ATMs in minority neighborhoods, minority hiring practices, use of appraisers whose businesses are not located in minority neighborhoods, inappropriate mortgage loan products, and inadequate loan marketing through real estate agents — can be easily altered. Boston area banks should work to eliminate these potential causes of biased lending patterns. They must site more bank branches and ATMs in minority neighborhoods; increase their hiring of loan officers from minority neighborhoods; hire appraisers with businesses located in minority neighborhoods; offer mortgage loans with flexible underwriting standards (and either keep them in their own portfolios or sell them to the secondary market after letting them "season" in their own portfolios for two to five years); and more actively market their mortgage loan products through realtors.

Residents of Boston's minority neighborhoods are particularly interested in obtaining increased banking services for their neighborhoods. The Community Investment Coalition, a coalition of community organizations, has proposed that banks open 15 new offices and ATMs in minority neighborhoods and offer low- and no-fee checking and savings accounts and check cashing services to low-income customers. Providing standard services in minority neighborhoods is clearly the first and easiest step in addressing lending disparities.

It is also important that banks develop new, more flexible (non-standard) mortgage loan products. The development of more flexible mortgage loan products would increase the availability of mortgage loan funds to families not currently served by the secondary market. These products would increase demand for mortgage loans in minority neighborhoods and among families who have been unable to buy one of the thousands of condominiums that have been converted from rental units in Boston over the last several years. Banks should more aggressively encourage secondary market institutions to purchase packages of non-standard loans or facilitate the creation of local secondary markets which respond to unique local needs.

The state of Vermont, for instance, has recently created a statewide secondary mortgage market for the state's predominantly rural mortgage loans — loans which do not conform to nationwide secondary mortgage market standards because they may be provided for the purchase of property, for instance, which does not border a paved road.

Some local banks have recently developed mortgage loan products with more flexible credit and property standards which they hold in their own portfolios. Reports indicate that banks offering these new products have received a surge of applications from potential borrowers. These products could be tailored even more closely to Boston home buyers' needs. Examples of mortgage loan products that have been developed in other cities are presented in the last section of this report.

Steps which reverse bank policies and practices that cause disparities in mortgage lending should be coupled with special remedial steps. For example, banks should create outreach programs to demonstrate their willingness to provide loans in minority neighborhoods and to counteract communities' lack of knowledge about establishing credit relationships and mortgage lending. Outreach programs in which banks and community groups collaborate have been successful in other cities. Moreover, bank board members, loan committees, loan officers, and community affairs officers must be educated about the processes that lead to racial disparities in lending so that they can change these processes through their everyday business decisions.

Community Lending Programs

In addition to eliminating the potential causes of racial disparities in their lending, Boston area banks should fulfill their implicit obligation under the Community Reinvestment Act to reverse those racial disparities directly — to make lending commitments to those neighborhoods that have historically faced restricted access to credit. Boston area banks should make such lending commitments to the city's minority neighborhoods.

Since restricted access to mortgage lending in a neighborhood, as we have discussed above, probably restricts access to construction lending as well, lending commitments to minority neighborhoods should include housing construction lending commitments as well as mortgage lending commitments. In addition, the general deterioration of a neighborhood that results from disinvestment hurts the commercial life of a neighborhood as well. Bank lending commitments to minority neighborhoods, then, should include commercial lending as well.

Though, as we have demonstrated, there has been an unmet demand for market-rate loans in minority neighborhoods that is not being met by banks, some loans at reduced rates and with flexible standards which address the needs of lower-income neighborhoods are an important part of any bank effort to increase lending in minority neighborhoods. If creditworthy lending is to be provided to low- and moderate-income families, it needs to be affordable to them. This may mean that loan pricing and traditional profit margins may have to be adjusted, particularly in Boston, where the gap between wages and home prices is among the highest in the nation. Interest rate reductions, lower down payment requirements, and relaxation of other secondary market underwriting standards need to be provided to put housing within reach of low- and moderate-income families in Boston's minority neighborhoods.

Boston banks need to participate more comprehensively in efforts to increase the availability and affordability of housing in the city.

In addition to increasing their lending to minority neighborhoods, Boston banks should adhere more closely to the broad Community Reinvestment Act mandate to meet all of the credit needs of the communities in which they do business. The need for increased affordable housing opportunities in Boston is evident. Job expansion will be slowed considerably if there is not a significant expansion of housing affordability and availability in the city in the near future. Boston banks need to participate more comprehensively in efforts to increase the availability and affordability of housing in the city. The Boston Housing Partnership has provided valuable financing and assistance for the production of affordable housing in the city. This kind of public-private partnership should be expanded. In particular, banks could provide larger amounts of non-government- guaranteed financing for affordable housing construction. Much of the construction financing for Boston Housing Partnership projects has been government-guaranteed in some way. More housing construction financing needs to be provided by banks independent of any government guarantee or subsidy, since the availability of government-sponsored housing construction financing is limited.

Thus, banks need to provide a program for increased mortgage lending, housing construction lending, small business lending, and banking services citywide, with specific emphasis on the city's minority and low-income neighborhoods. Banks should work with community groups and the city to negotiate the volume, rates, and terms of this lending and to ensure that bank community lending programs are part of the broader City and community effort to increase housing affordability in Boston.

City and state policies and regulations need to be adapted to encourage banks to increase their community lending activities.

The Massachusetts Bankers Association, which represents all banks in the state, has called upon its members to offer mortgage programs with favorable rates and terms for low- and moderate- income families and to participate in newly-created bank- sponsored affordable housing development and small business assistance organizations. The Association has also encouraged its members to offer increased banking services for low- and moderate-income families. These proposals are statewide. The scope of the Massachusetts Bankers Association proposal — its inclusion of mortgage, housing construction, small business financing, and services — resembles community lending programs by banks in other cities. However, the program is, so far, much less specific than many programs by banks in other cities in terms of amounts of financing and financing rates and terms.

Legislation and Regulations

In addition, city and state policies and regulations need to be adapted to encourage banks to increase their community lending activities. Several current laws and regulations (described in Section 2 of this report) already require federal and state bank regulators to monitor the extent to which banks are meeting community lending needs and address problems such as those presented in this report.

Unfortunately, bank regulators have, by and large, not performed these vital tasks. Many banking experts have stated that bank CRA ratings and evaluations by regulators have been artificially high; regultors give higher ratings to banks than they deserve given their performance as shown in lending data.

It is critical for bank regulators to ensure that banks live up to their community lending obligations. The Federal Reserve Bank, as the bank regulator with the largest research facilities, should closely monitor aggregate and individual bank community lending in Boston and suggest remedies where lending patterns fall short of the CRA.

Additional measures should be taken to ensure that bank community lending in Boston is adequate. In particular, Boston city agencies should be provided with the resources necessary for effective monitoring:

- The City should require all banks who wish to do business with the City to submit standardized reports on their lending activities in Boston. Information should be provided by banks on the location of residential and commercial loans and deposits by property type (commercial, commercial/residential, residential single-family, 2-family, 3-family, etc.); application and rejection information by race, ethnicity, gender, and age; and neighborhood housing and economic development activities.

- The City is developing a "linked deposit" program to be used in the Treasurer's selection of banks for the deposit of City funds and for conducting financial transactions for the City. This selection of banks for City business will be based on a bank's history of service to neighborhoods, current programs and initiatives regarding neighborhood development, and programs to affirmatively address past lending disparities as well as on narrow economic considerations such as interest rates. The City should encourage city businesses and state and federal agencies to do the same.

- Passage of a state law that will allow New England banks to expand outside of New England should be postponed until area banks improve their CRA performance within Boston and other cities in which there are racial disparities in mortgage lending.

- The state Community Reinvestment Act should be changed to reflect the CRA reforms of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. In particular, the state should enact a provision to make public the CRA ratings and evaluations given to state- chartered banks by the Massachusetts Banking Commission.

- The Commonwealth of Massachusetts should enact legislation to regulate appraisers. (Congress passed enabling legislation for such laws as part of the savings and loan bailout bill.) State legislation should ensure that appraisers are knowledgeable about the neighborhoods in which they work and should include measures to counteract lender bias in the selection of appraisers. One way of doing this would be to give the lender, seller, and buyer joint contractual obligations regarding the appraisal. Another would be to create an appeals process which would be funded by appraisers.

Finally, the results of this report raise the following questions: should bank regulators — whose primary purpose is to guarantee the safety and soundness of banks — monitor the CRA performance of banks at all? Or should an independent agency evaluate banks' performance under the CRA? The Federal Reserve Bank, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, the Comptroller of the Currency, and the State Division of Banks have clearly not carried out their responsibilities under the CRA. Banking experts suggest that many employees of these agencies have close ties to the banking industry; many have been or expect to be employed in the industry. These ties may prevent a full and fair evaluation of banks' CRA performance. Perhaps it is time to look to another agency — one that is less tied the the banking industry — to enforce the CRA. This may be the only measure that can ensure fair access to credit for all neighborhoods and familes in Boston.

In sum, though the policies and practices that cause lending disparities must be changed, banks must also make positive commitments to reduce disparities by directly increasing lending to minority neighborhoods. In addition, Boston banks, in their citywide activities, need to adhere to the general principles of the Community Reinvestment Act by participating more fully in city and other efforts to increase the supply of affordable housing and increase homeownership opportunities citywide. Finally, city and state policies and regulations need to encourage banks to increase their community lending activities. In the next section, ways in which banks in other cities have increased lending to low-income and/or minority neighborhoods are described.

5. Community Lending Programs in Other Cities

Many banks across the country have created "community lending" programs targeted to families which have historically faced restricted access to bank credit. Table 10 is a partial listing of banks that have created significant community lending programs since 1983. Most of the bank community lending programs include some lending at favorable interest rates and underwriting standards, often with reduced or no application and processing fees. Many of these programs which include lending at favorable rates and terms have been created by banks in tandem with community groups. Some of these commitments are for specific dollar amounts; for a significant number of these programs, however, banks simply alter their lending standards for some loan products without limiting their lending to a specific dollar amount. Community lending programs are found in over 125 cities. Lending through these programs amounts to at least $6 billion nationally (Bradford 1989).

Community lending programs are found in over 125 cities. Lending through these programs amounts to at least $6 billion nationally.

Some banks in Boston have recently developed mortgage loan products for low- and moderate-income borrowers similar to those that are part of community lending programs of banks in other cities. The flexible underwriting standards of these mortgages and the reduced application fees and closing costs will benefit low- and moderate-income families. Examples of the flexible standards provided by these programs are: housing cost ratios (the percentages of mortgage applicants' incomes that can be allocated for housing expenses) have been increased, down payment requirements have been lowered to 5 or 10 percent, and, in some cases, banks are allowing an applicant to count income from a spouse's job or a second job. Banks in other cities, however, have mortgage programs with underwriting standards that go much farther. Fidelity Bank in Philadelphia, for instance, allows food stamps and other government benefits to be considered as income; recognizes the value of "sweat equity" as a partial down payment; and does not automatically disqualify borrowers who do not have a credit history or want to buy a home on a neighborhood block with high abandonment rates ("Summary.." 1986).

TABLE 10

A PARTIAL LISTING OF BANKS WITH SIGNIFICANT COMMUNITY LENDING PROGRAMS, 1983-JULY 1989

LENDER	CITY	YEAR
Sovran Bank	Richmond, VA	1983
Northern Trust Bank	Chicago, IL	1984
Connecticut National Bank	Hartford, CT	1984
Harris Bank	Chicago, IL	1984
Connecticut Bank and Trust	Hartford, CT	1984
First National Bank of Chicago	Chicago, IL	1984
Bank of Edgewater	Chicago, IL	1985
Boatmens Bank	St. Louis, MO	1985
United Bank and Trust	Hartford, CT	1985
M & I Bank	Milwaukee, WI	1986
Republic Bank	San Antonio, TX	1986
NBC Bank	San Antonio, TX	1986
First Bank, Duluth	Duluth, MN	1986
Dauphin Bank	Harrisburg, PA	1986
American Security Bank	Washington, DC	1986
Fidelity Bank	Philadelphia, PA	1986
First Tennessee Bank	Memphis, TN	1986
Wells Fargo Bank	California	1986
Fleet Bank	Providence, RI	1986
Continental Bank	Chicago, IL	1986
Bank One, Merrillville	Gary, IN	1986
Bank One, Columbus	Columbus, OH	1986
Valley National Bank	Des Moines, IA	1987
First Security Bank	Lexington, KY	1987
Continental Bank	Philadelphia, PA	1987
Republic Bank	Dallas, TX	1987
Bank One, Milwaukee	Milwaukee, WI	1987
Norwest Bank	Des Moines, IA	1987
Texas Commerce Bank	San Antonio, TX	1987
First Jersey Bank	New Jersey	1987
Frost Bank	San Antonio, TX	1987
Council Bluffs Savings Bank	Council Bluffs, IA	1987
Austin Bank	Chicago, IL	1987
Union Planters Bank	Memphis, TN	1987
Maryland National Bank	Baltimore, MD	1987
First Bank	Davenport, IA	1987
Bank One, Indianapolis	Indianapolis, IN	1987
Riggs Bank	Washington, DC	1987
Key Bank	Syracuse, NY	1987

Continued

TABLE 10

LENDER	CITY	YEAR
First Tennessee Bank	Knoxville, TN	1988
First Bank, Minneapolis	Minneapolis, MN	1988
Union National Bank	Pittsburgh, PA	1988
Third National Bank	Knoxville, TN	1988
Provident Bank	Philadelphia, PA	1988
Atlantic Financial	Harrisburg, PA	1988
Union Bank	California	1988
NBD Bank	Detroit, MI	1988
Trust Company Bank	Atlanta, GA	1988
Bankers Trust	Des Moines, IA	1988
First Bank, Billings	Billings, MT	1988
Citizens & Southern Bank	Atlanta, GA	1988
Sovran Bank	Nashville, TN	1988
First of America Bank	Detroit, MI	1988
First Atlanta Bank	Atlanta, GA	1988
First Interstate Bank	Des Moines, IA	1988
Nine-bank loan consortium	Atlanta, GA	1988
Mera Bank	Phoenix, AZ	1988
Comerica Bank	Detroit, MI	1988
LaSalle Bank	Chicago, IL	1989
Northern Trust renewal	Chicago, IL	1989
Central Trust Bank	Cincinnati, OH	1989
First Chicago renewal	Chicago, IL	1989
Harris Bank renewal	Chicago, IL	1989
First Federal Savings and Loan	Milwaukee, WI	1989
Norstar Bank	Syracuse, NY	1989
Meridian Bank	Philadelphia, PA	1989

Source: National Training and Information Center

From the perspective of low- and moderate-income families, another disadvantage of the special mortgage programs that have been developed in recent months by Boston banks is that most, if not all, of them are adjustable-rate mortgages with interest rates that are initially 1 or 2 percentage points lower than the market rate but which rise — often dramatically — after the first few years. The result is a mortgage which may be unaffordable to the borrower for most of its term. Though many young persons or couples expect their real incomes to increase, the real incomes of many working families will not increase. For most low- and moderate-income working families, a *fixed-rate* mortgage with a lowered interest rate for the life of the mortgage is the most appropriate type of mortgage. Banks in other cities offer fixed-rate low-interest mortgages for low- and moderate-income families. Maryland National Bank in Baltimore, for instance, currently offers a 30-year fixed-rate mortgage at a 7.5 percent interest rate (2 to 2 1/2 percentage points below market interest rates), with no points, for first-time home buyer households earning less than $23,000 a year (Roosevelt 1989).

In many cities, banks have made arrangements to sell loans with flexible underwriting standards (e.g. with lower-than- standard down payments or allowing low- and moderate-income borrowers to spend a higher proportion of income on monthly payments) on the secondary mortgage market. This increases the volume of such lending that they can do. Programs have recently been created in various cities through which Fannie Mae has agreed to purchase such mortgages. This allows banks in these cities to originate a larger number of loans with modified underwriting standards for low- and moderate-income families than they ordinarily would — since, without this program, banks would have to keep these loans in their own portfolios. Lending institutions in such cities as New York, Baltimore, Chicago, Cleveland, Dallas, Washington D.C., Seattle, Omaha, Wilmington (Delaware), San Francisco, and Los Angeles have created such programs (Federal National Mortgage Association 1988).

Many community lending programs in other cities include housing construction financing as well as mortgage financing. Cartaret Bank in New Jersey, for instance, offers construction loans at prime rate with no points for non-profit developers building units affordable to low- and moderate-income households. Bank of New York provides fixed-rate loans for low- and moderate- income development or rehabilitation also at the prime interest rate. The risk for these loans is borne completely by the banks themselves, rather than by a public agency (Center for Community Change 1988).

Some banks in other cities have increased the development capacity of community organizations by allowing flexibility in structuring loan terms for projects by nonprofit organizations. Interviews conducted for this study indicate that the special financing needs of Boston's nonprofit housing developers are not being met by Boston's banks. Local nonprofit organizations have found it difficult, for instance, to obtain long-term permanent financing (which would enable them to own rental buildings for long periods of time to maintain affordability) from banks. Meridian Bank in Philadelphia and Delaware, however, offers financing of up to 30 years for residential and commercial projects where risks are minimized by loan or deposit guarantees from governmental or other sources. Banks in other cities take measures such as including public subsidies when determining equity and making construction loans at up to 80 percent of construction value, including land (Center for Community Change 1988).

Below, community lending programs in three cities — Washington, D.C., Chicago, and New York — are described. These are just examples of the myriad of programs that have been created by banks across the country to meet their community lending obligations.

Washington, D.C.

American Security Bank in Washington, D.C. decided several years ago to devote a substantial part of its portfolio to loans in Washington's inner city neighborhoods. The bank's "Community Development Group", part of their Real Estate Division, originates these loans and has been as profitable as their other lending groups in the bank. *Loans originated in the Community Development Group account for 65 percent of the bank's $200 million portfolio in 1989.* The Group has financed the construction of 5,000 rental units and 250 ownership units. Most of the loans are to small-scale affordable housing and neighborhood commercial/retail projects. Though the Group does not turn down loans based on location, it seeks lending opportunities in selected blocks to ensure the viability of its loans. This type of targeted lending has proven to be effective for this bank in deteriorated neighborhoods, since every loan after the first one protects the bank's original investment (Kollias 1989).

American Security Bank's Community Development Group serves the unique needs of smaller developers and development organizations. It maintains close working relationships with its clients even after funds are disbursed. The staff of the Group specializes in "custom financing" — financing involving many, often nontraditional, participants and public/private partnerships. Types of financing provided by the bank include construction loans, land acquisition/development loans, interim loans, and lines of credit. Through one of its initiatives, the Community Development Lending Group provides "one-stop" acquisition, renovation, and permanent financing for low- and moderate-income cooperative housing projects (American Security Bank 1988). This makes borrowing easier for the borrower and reduces transaction costs for the bank.

Chicago

A program created by three banks in Chicago in 1984 is often cited as an example of an effective community lending program. This program is now old enough to be evaluated for its performance over several years. Through this program, three Chicago banks — First National, Harris Bank, and Northern Trust — provided a variety of loan products, all at favorable rates and terms, in low- and moderate-income neighborhoods over five years. The following types of loans were provided in Chicago and three lower-income suburbs through this program: combination purchase/rehabilitation loans for single-family homes; loans for the purchase and/or rehabilitation of multifamily buildings, with an emphasis on affordability for low- and moderate-income families (including blanket mortgages for residential cooperatives); commercial loans for the purchase of capital equipment and fixed assets; funds for the purchase of government- guaranteed small business loans from neighborhood banks; and financing for mixed commercial/residential development (Metzger and Weiss 1988).

To ensure that loans were directed to areas in need and used for community-sponsored projects (i.e. projects that would not foster gentrification and/or displacement of lower-income people from neighborhoods), initial screening and loan application assistance was done by two neighborhood organizations; the number of neighborhood organizations that assisted in this program increased as the program was implemented. Review boards, consisting of bank and community representatives, examined the implementation of the programs and discussed possible changes in program rules and qualifications. The default rate for the loans provided through this program was only 0.01 percent — 1/100 of 1 percent (CRA Reporter 1989:8).

In 1989, the three Chicago banks which created this program announced the renewal of the program for five years, increasing their dollar commitments from $173 million to $225 million. The banks called the program "an unqualified success" and "excellent" (CRA Reporter 1989:8).

A key factor in the success of the Chicago program was the involvement of community groups and the City in the design and implementation of the program. Initiatives similar to the one in Chicago — in which banks, community groups, and city government work together to develop loan programs and identify lending opportunities in low- and moderate-income neighborhoods — have been created in Philadelphia and Providence as well (Metzger and Weiss 1988).

New York City

In New York City, a consortium of 12 commercial and 27 savings banks created the Community Preservation Corporation (CPC) in 1974 to increase private capital investment in the city's deteriorated neighborhoods. The CPC has become the leading private financier of low- and moderate-income housing rehabilitation and development in New York City. Since its founding, it has financed the rehabilitation of more than 20,500 housing units; over $350 million in public and private capital has been invested in these units. Pension funds and insurance companies participate in the CPC as well: the New York City Police Pension Fund and the New York City Employees Retirement System have provided $200 million in permanent mortgage financing (invested by CPC) for CPC projects and seven major New York-based insurance companies have provided $100 million for a secondary market for end loans on affordable condominiums rehabilitated through the CPC. Though the CPC provides financing for the creation of affordable housing throughout New York City, its primary areas of activity today are Central Harlem and the South Bronx. The CPC has experienced no losses from foreclosure in the 14 years it has been in operation.

Since 1974, when the CPC was founded, a significant proportion of all the affordable housing built in New York City has been built by the CPC. The CPC streamlines and "routinizes" the affordable housing development process by providing construction and permanent financing from one organization, utilizing subsidies from the city as well. It functions as a "line" of construction financing for affordable housing projects — a production vehicle for affordable housing in the city. The organization has been a channel through which numerous lenders have been able to enter the affordable housing field. The CPC is being replicated in Chicago, California, and other parts of New York State (Community Preservation Corporation 1988).

Summary

In many cities across the country, banks have demonstrated that lending programs in traditionally disinvested neighborhoods, designed in tandem with community groups and city government, can reduce racial and income disparities in bank lending practices. Banks in Boston, a city which has some of the most extensive programs for affordable housing development and preservation in the country, should create such a program as well. In addition, the City can play an important role in providing legislative and regulatory incentives for banks to develop such programs. It is imperative that impediments to the proper operation of lending markets in the city be eliminated through the measures described above. If banks work to meet the demand for capital from communities in which there is disinvestment, Boston's economy will become both more equitable and productive.

APPENDIX A

INTERVIEWS

Georgeann Abbanat and Dennis LeMue,
Massachusetts Division of Banks, April 13, 1989

Donald Barry and Richard Muraida,
Neworld Bank, May 8, 1989

Linda Conroy, Rufus Phillips, and Marty Vanaanen,
Massachusetts Housing Finance Agency (MHFA), April 14, 1989

Daniel Dart and Ann Hartman,
Blackstone Bank, May 9, 1989

Lew Finfer,
Massachusetts Affordable Housing Alliance, March 9, 1989

Bonnie Heudorfer,
Bank of Boston, March 9, 1989

DeWitt Jones,
Boston Community Loan Fund, May 8, 1989

Marvin Martin,
Greater Roxbury Neighborhood Authority, March 9, 1989

Pat McGuigan,
Public Facilities Department, April 14, 1989

Bob Van Meter,
Fenway Community Development Corporation, May 8, 1989

Martin Nee,
South Boston Community Development Corporation, May 8, 1989

Mary O'Hara,
Massachusetts Urban Reinvestment Advisory Group (MURAG), April 14

Charleen Regan,
Community Economic Development Assistance Corporation (CEDAC), April 13, 1989

Kathy Thomas,
Freedom House, April 14, 1989

INFORMATIONAL MEETINGS

Massachusetts Bankers Association and representatives from the Bank of Boston, Bank of New England, Boston Bank of Commerce, Boston Five, and Shawmut Bank, March 10, April 27, and May 12, 1989

Minority Developers Association, January 6, 1989

Representatives from the Community Economic Development Assistance Corporation (CEDAC), the Citizen's Housing and Planning Association (CHAPA), Greater Boston Community Development (GBCD — now Community Builders), the Greater Roxbury Neighborhood Authority (GRNA), Local 26 of the Restaurant and Hotel Workers Union, the Massachusetts Affordable Housing Alliance (MAHA), and the Massachusetts Tenants Organization (MTO), January 5, 1989

BIBLIOGRAPHY

Achtenberg, Emily and Rebecca Stevens. 1988. *Losing Ground: The Impact of Condominium Conversions on Boston's Housing Stock and Neighborhoods.* Boston: Massachusetts Tenants Resource Center.

American Security Bank. 1988. *Community Development Lending Group.* Washington, D.C.: Community Development Lending Group.

Azad, Bizhan and Andrew Foley. 1988. *Average Wages and Total Wage and Salary Disbursements: Comparison of Suffolk County with Massachusetts and the U.S., 1969-1986.* Boston: Boston Redevelopment Authority.

Blossom, Teresa, David Everett, and John Gallagher. 1988, August. "The Race for Money." *Detroit Free Press.*

Bradbury, Katharine L., Karl E. Case, and Constance R. Dunham. 1989. *Geographic Patterns of Mortgage Lending in Boston, 1982-1987.* Boston: Federal Reserve Bank of Boston.

Bradford, Calvin. 1989. "Reinvestment: The Quiet Revolution." *The Neighborhood Works* 12 (August/September 1989).

Carre, Francoise J. 1988. *The Economies of Boston and 34 Other Large Cities in the Year 2000.* Boston, MA: Boston Redevelopment Authority.

Center for Community Change. 1988. *An Annotated CRA Agreement.* Washington, D.C.: Center for Community Change (unpublished).

Community Preservation Corporation. 1988. *Annual Report 1988.* New York: Community Preservation Corporation.

The CRA Reporter. 1989. "Chicago Banks Renew Reinvestment Commitments." *The CRA Reporter* 3 (Summer 1989).

Dedman, William. 1988, May 1-4. "The Color of Money." *Atlanta Journal and Atlanta Constitution.*

Dreier, Peter, David C. Schwartz, and Ann Greiner. 1988. "What Every Business Can Do About Housing." *Harvard Business Review* (September-October 1988).

Federal National Mortgage Association. 1988. *Fannie Mae's Low- and Moderate-Income Housing Initiatives.* Washington, D.C.: Federal National Mortgage Association.

Fruscello, Mary A. 1989. "How Lenders Can Generate More Business with Realtors." *Real Estate Finance Journal* 4 (Spring 1989). Boston: Warren, Gorham & Lamont, Inc.

Ganz, Alexander. 1987a. *Housing Market Change in Boston's Minority Neighborhoods.* Boston: Boston Redevelopment Authority.

Ganz, Alexander. 1987b. *The Boston Economy and the Housing Market.* Boston: Boston Redevelopment Authority.

Goetze, Rolf. 1989. *Demographic and Housing Stock Changes in the City of Boston, 1980-1986.* Boston: Boston Redevelopment Authority.

Goetze, Rolf and Deborah Oriola. 1988. *Condominium Development in Boston 1969-1987.* Boston: Boston Redevelopment Authority.

Goldstein, Ira and Anne B. Shlay. 1988. *Getting the Credit We Deserve: An Analysis of Residential Lending in New Castle County, Delaware 1984-1986.* Philadelphia: Temple University, Institute for Public Policy Studies.

Goldstein, Ira. 1987. *The Persistent Significance of Race: A City Suburb Comparison of Mortgage Lending in the Philadelphia Metropolitan Area.* Philadelphia: Temple University (Working Paper, Institute for Public Policy Studies).

Goldstein, Ira. 1986. *The Impact of Racial Composition on the Distribution of Conventional Mortgages in the Philadelphia SMSA: A Case Study.* Philadelphia: Temple University (Working Paper, Institute for Public Policy Studies).

Greene, Zena. 1980. *Lender's Guide to Fair Mortgage Policies.* Washington, D.C.: The Potomac Institute, Inc.

Greiner, Ann. 1987. *The Housing Affordability Gap and Boston's Economic Growth: Potential for Crisis.* Boston: Boston Redevelopment Authority.

Guttentag, Jack M. 1984. "Recent Changes in the Primary Home Mortgage Market." *Housing Finance Review* 3 (July 1984):221-55.

Kolleas, Karen and Joseph Tockarshewsky. 1989. "Affordable Housing: Business Opportunities for Lenders." *Mortgage Banking* (April 1989):49-54.

Lomas Mortgage USA. 1989. *U.S. Housing Markets* (January 1989).

Metzger, John T. and Marc A. Weiss. 1988. *The Role of Private Lending in Neighborhood Development: The Chicago Experience.* Chicago: Center for Urban Affairs and Policy Research, Northwestern University.

National Association of Realtors. 1989. *Home Sales*, 3 (January 1989).

Nothaft, Frank E. 1985. "Survey of Home-Seller Finance, 1983." *Federal Reserve Bulletin* 71 (October 1985):767-75.

NPA Data Services, Inc. 1988. *Regional Economic Projections, 1987 Series*, vol. 2. Washington, D.C.: NPA Data Services, Inc.

O'Brien, Margaret. 1985. *Diversity and Change in Boston's Neighborhoods: A Comparison of Demographic, Social, and Economic Characteristics of Population and Housing, 1970-1980.* Boston: Boston Redevelopment Authority.

O'Hare, William. 1986. "The Best Metros for Blacks." *American Demographics* (July 1986).

Perkins, Gregory W. 1989. *Summary of Presentation to Standard and Poor's on the Current Status of the Boston Economy.* Boston: Boston Redevelopment Authority.

Perkins, Gregory W. 1987. *Boston's Housing Needs, 1985-2000.* Boston: Boston Redevelopment Authority.

Roosevelt, Phil. 1989, September 22. "Baltimore Homebuyers Get a Break." *American Banker.*

Shlay, Anne B. 1989. "Financing Community: Methods for Assessing Residential Credit Disparities, Market Barriers, and Institutional Reinvestment Performance in the Metropolis." *Journal of Urban Affairs* 11, no. 3.

Shlay, Anne B. 1988. "Not in that Neighborhood: The Effects of Housing and Population on the Distribution of Mortgage Finance Within the Chicago SMSA from 1980-1983. *Social Science Research* 17:137-163.

Shlay, Anne B. 1987a. *Maintaining the Divided City: Residential Lending Patterns in the Baltimore SMSA.* Baltimore: Maryland Alliance for Responsible Investment.

Shlay, Anne B. 1987b. *Credit on Color: The Impact of Segregation and Racial Transition on Housing Credit Flows in the Chicago SMSA from 1980-1983.* Chicago: Chicago Fair Housing Alliance.

Shlay, Anne B. 1986. *A Tale of Three Cities: The Distribution of Housing Credit From Financial Institutions in the Chicago SMSA from 1980-1983.* Chicago: Woodstock Institute.

Shlay, Anne B. 1985. *Where the Money Flows: Lending Patterns in the Washington D.C.-Maryland-Virginia SMSA.* Chicago: Woodstock Institute.

Squires, Gregory D. and William Velez. 1987. "Neighborhood Racial Composition and Mortgage Lending: City and Suburban Differences." *Journal of Urban Affairs* 9:217-232.

"Summary of Fidelcor - Eastern North Philadelphia Initiative Coalition Program." 1986.

Williams, Peter M. 1988. *Race and Mortgage Lending in New York City: A Study on Redlining.* Brooklyn: Medgar Evers College, Center for Law and Social Justice.

APPENDIX
B

Public Schools Case
Research Questionnaire

PAGES 387 - 389

Recorder:

Date:

Event:

Location:

People present:

Emergent Issue	Yes?	Description of Occurrence
Gain commitment and trust of internal stakeholders to one another and to consultants		
• Do not look unprofessional		
• Build consultant credibility		
• Gain buy-in of primary client (individual, not organization)		
• Develop initial process design and agreement (contract) to follow it		
• Create early memorable milestones		
• Manage internal key actor involvement, especially saboteurs and opinion formers		
Carefully manage partnership development between primary client, "partners" or "champions," and consultants		

Emergent Issue	Yes?	Description of Occurrence
Specifically tailor tools and techniques, agendas, and stage management		
• Build credibility for the process		
• Attend to planning session environments		
• Build consultant credibility		
• Do not look unprofessional		
• Look for added value through insights from the use of unusual or different processes		
Manage external stakeholder expectations		
Gain emotional and reasoned commitment to specific actions		
• Look for added value through insights from the use of unusual or different processes		
Deal with changes and shifts in key actors		
Honor past while estranging people from it (work with negotiated social order)		
Manage changing agenda of ideas having strategic significance		

APPENDIX
C

OVAL
MAPPING
CHAPTER

PAGES 390 - 402

APPENDIX C
Using the "Oval Mapping Process" to Identify Strategic Issues and Formulate Effective Strategies"

by
John M. Bryson, Fran Ackermann, Colin Eden, and Charles B. Finn

Many effective idea-producing techniques, such as brainstorming (Johnson and Johnson, 1991) and the nominal group technique (Delbecq, Van de Ven, and Gustafson, 1975), can produce lots of ideas, but do not identify relationships among them for purposes of carrying the discussion further. The snow card process provides some structure to brainstormed ideas through grouping them into categories, which then can be organized into logical, priority, or temporal order. "Mind mapping" (Buzan, 1993) does much the same thing. But often, along with categorization, the relationships among ideas within or across categories need to be further clarified. A process therefore is needed to capture and "map" these relationships. The resulting "map," or "directed graph" (Harary, Norman, and Cartwright, 1965; Axelrod, 1976; Eden, Jones, and Sims, 1983) may consist of concepts phrased as if they were actions and recorded on oval-shaped pieces of paper, linked by directional arrows indicating influence relationships among them -- such as "A" may cause or influence "B," which in turn may cause or influence "C," and so on. In other words, the action A expected to lead to an outcome, B; while B in turn is an action expected to lead to the outcome C. These maps can consist of hundreds of interconnected action-outcome/means-end relationships, showing different "areas" of interest and their relationships to one another.

The "oval mapping" process, which uses the "mapping" technique, was developed and refined over a number of years by Colin Eden and a large number of associates (Eden, Jones, and Sims, 1983; Eden and Huxham, 1986; Eden, Ackermann, and Cropper, 1992; Ackermann, 1993; Bryson and Finn, 1994). Ackermann (1993), in particular, is a key source of material for this resource section. The process was developed as part of an approach to strategic management called Strategic Options Development and Analyis (SODA) (Eden, 1989) that has strongly influenced my own approach to strategic planning outlined. (In the United Kingdom, the oval mapping process is called the "domino" process because of its origins in work there with unemployed youths who spent much of their time playing dominoes. To avoid any confusion, the process is called the ovals process in North America since it employs oval-shaped pieces of paper to record ideas.)

The process can be used with individuals or with groups of up to twelve members, although seven is optimal. In groups larger than twelve participants can be lost in the crowd and feel they are not part of the group. More than twelve people can be involved, however, through the use of subgroups. Subgroups can all be assigned the same question or issue -- allowing two representations of the issue area to be gained, along with subsequent learning from comparisons and contrasts -- or each can consider different aspects of an issue. Subgroups may be be homogeneous, representing different stakeholders or levels within the organization, or heterogeneous, mixing representation. The simplicity of the basic process means it can be adapted to a number of uses, including stakeholder analyses, scenario development, strategic issue identification, strategy development, and clarifying the meaning of symbolically or substantively important concepts. Several of these applications are discussed below.

Purpose, Desired Outcomes, and Benefits

The purpose of the oval mapping process is to make sense of an area of concern by capturing and structuring the ideas that comprise it. The meaning of any particular idea consists of the its context -- that is, the ideas that influence it ("arrows in") and the ideas that flow from it as consequences or outcomes ("arrows out"). Comparing and contrasting ideas and elaborating their connections establishes the richness of context that makes understanding possible (Kelly, 1963; Schein, 1992). As ideas are explored, different interpretations are identified leading to a more complete picture emerges. The most important desired outcome of using the oval process thus is increased understanding an important problem or issue area.

For example, School District's board and cabinet mapped relationships among ideas in order to identify strategic issues and develop strategies to address them (Bryson and Finn, 1994). The resulting map included over 975 ideas that captured much of the board's thinking about the district's mission, goals, and strategic issues. One set of strategic issues that emerged centered around how and why to "Manage effectively the integration and inclusion of all populations." The board was asked the questions, "How can we manage the integration and inclusion of all populations well?" and "Why would we want to do so, that is, what should our goals be?" Their initial thinking is presented in Figures _ and _. Each concept on the map received a unique number, so that it could be entered into a computer program (discussed below) and these are noted in the figures. Figure _a answers the "how" question and indicates the various actions that might be expected to lead to effective integration and inclusion of all populations -- the concept numbered 193. These include, for example, "Promote multi-cultural education" (106), "Redefine the way curriculum is developed" (214), "Use new technology" (164), "Individualized instruction" (167), and "Plan for desegregation" (165). Figure _b answers the "why" question, indicating the various consequences -- leading to goals, values, and beliefs -- that might ensue from managing integration and inclusion well. These include "Prepare students to function successfully in a diverse society" (66), "Insure that all kids have equality of opportunity" (270), "Morality is taught in schools" (31), and "Develop good linkages with other organizations" (107). (The maps were passed along to the board-appointed and broadly inclusive Curiculum Task Force, which was asked to elaborate on the thinking and prepare strategy recommendations for board consideration.)

Insert Figures _ a & b About Here

A significant insight that emerged from the board's discussion of the map was that effective management of integration and inclusion is part and parcel of -- and not isolated from -- a number of other issues the board initially thought were far more important (Figure _a). These sub-issues include: "Redefine way curriculum is developed" (214), "Develop an up-to-date living curriculum" (262), "Increase parent involvement" (314), "Use new technology" (164), "Individualized instruction" (167), and so on. The centrality of the integration and inclusion issue was highlighted further by its close connection to the board's higher-order goals for the district (Figure _b), including: "Prepare learners for next century" (3), "Provide education services to meet community needs" (34), and, as already noted, "Prepare students to function successfully in a diverse society" (66).

There are a number of important benefits to using the oval mapping process:

The benefits of the process include its capacity to enhance reasoning ability, improve dialogue, manage complexity in issue areas, and build teamwork within the groups that use it.

1. The process is easy to understand, teach, and use, and thus complex maps can be developed relatively quickly. Mapping typically is a very efficient use of a group's time.
2. Structuring action-outcome relationships helps people figure out what they can do about an area of concern. This makes the process very useful to leaders and managers who typically have an action orientation and often are uncomfortable with vague abstractions. It also promotes understanding through working out what is necessary to make something happen.
3. The process promotes a fuller understanding of an area of concern and thereby helps assure that any actions taken are constructive, rather than short-sighted, foolish, or downright damaging.
4. Much of the fuller understanding comes from the inclusion of many people's views, thereby developing a <u>shared</u> view of the area of concern and what might be done about it. The process thus promotes intra- and interorganizational, as well as intra- and interdisciplinary, understanding and creativity (de Bono, 1970; Van Oech, 1983; Johnson and Johnson, 1991). In most cases, the shared view represents a "reconstrual" of reality (Kelly, 1963), that is, participants see the world differently than they did before they came together -- not by arguing about statements, but through the way statements come to be linked together. For example, prior to developing its map, School District did not realize how directly "managing the inclusion of diverse populations" was linked to its other activities, or how central the issue was to pursuit of the district's mission.
5. When used with groups the process is highly participative and attends to the social aspects of group work. This promotes participant understanding of one another and each other's roles. It also means the process can build cohesion and generate commitment to, and ownership of, subsequent actions. The process thus is an effective team-building tool (Ackermann, 1992).
6. The process creates a forum for discussion and dialogue around important areas of concern, a fundamental feature of effective strategic planning, and a crucial precursor of effective action (Bryson and Crosby, 1989, 1992).
7. The process typically results in the creation of a tangible product, usually a map, that provides a record of the merged contributions of participants. To the extent that the map represents a shared and agreed-upon view, it serves as a "transitional object" (de Gues, 1988), or bridge, to the next step in the strategic planning process (Eden, 1989; Bryson and Finn, 1994). The map and the shared understanding of what it means can strongly influence mission formation, strategy development, and implementation.
8. The process and the maps that result provide a useful way of managing complexity (Eden, 1989). The maps can incorporate broad and abstract general statements of desired states (goals) as well as clusters of more specific options (issues) and agreed-upon portfolios of actions (strategies and work programs). The general form of a map is presented in Figure __, where goals are at the top, issues are below goals, options to achieve the issues are below issues, and statements of fact or assertions are at the very bottom.
9. Finally, the process enhances group productivity. Everyone can both "speak" (write on ovals), and "listen" (read ovals) in their full and broad

context rather than have to hear one person's views at a time and in sequence. Further, participants can come and go without necessarily negatively affecting the process in significant ways.

Insert Figure __ About Here

Process Guidelines

Persons wishing to use the process may find the following guidelines useful.

Equipment needs

A large, smooth, unbroken wall space is needed for each map that will be constructed. The wall space should be approximately twelve to fifteen feet wide and six to eight feet high. It is often difficult to find suitable wall space without some advance reconaissance. This space will be papered over with flipchart sheets in two or three rows, one above the other. Each row should be four to six flipchart sheets wide, depending on how many ideas are likely to be included on the map. The sheets should be hung with masking tape or self-adhesive putty so that they overlap each other about an inch. When all the sheets are hung, the seams should be taped with masking tape so that the map can be taken off the wall in one piece when completed and easily transported. It is also advisable to photograph the map before taking it down; each 35-millimeter photograph should be of a single flipchart sheet. If the map does not need to be transported, it can be constructed on a large whiteboard (although it may be difficult to find one large enough) using whiteboard markers to indicate links among ideas.

It helps if the room is spacious and well-lit, with easily accessible refreshments and restrooms. In addition, the following materials and equipment will prove useful:

- A full flipchart pad. Remember each map will take eight to eighteen sheets, so do not get caught short.
- Masking tape or self-adhesive putty, such as Blu-Tack. This is to affix the flipchart sheets to the walls. Architect's drafting tape usually does not work as well, since it not as sticky.
- A stack of ovals. Ovals are yellow paper ellipses approximately seven and one-half inches (180 millimeters) long and four and one-half inches (110 millimeters) wide. Typically they are the same weight as construction paper. A pattern is presented in Exhibit __. They are yellow, or some other light color, so that they contrast with the background of flipchart sheets, yet allow any writing in marking pens on them be read easily. Twenty to thirty ovals per participant should be available. (Alternatively, half-sheets of 8-1/2 x 11 inch paper, three by five-inch index cards, or large Post-Its can be used. The difficulty with these alternatives, however, is that they usually result in rows and columns rather than the full and creative use of a map's two dimensions.)

Insert Exhibit __ About Here

- A bullet-tipped marking pen for each participant. Bullet-tipped marking pens may be harder to find, but they are easier to use and the results are more legible than chisel-point pens. The pens should be the same color -- usually black -- to promote anonymity and to contrast with the color of the ovals. Some additional marking pens in different colors should be available to highlight particular features of the map (links, titles, key observations) during group discussions. Do not use regular ball-point writing pens, as the resulting writing likely will be impossible to read from a distance.

- Self-adhesive putty (such as Blu-Tack) for attaching the ovals to the flipchart sheet. Alternatively, have participants attach a tape roll to the back of each oval. A tape roll is made of architect's drafting tape rolled sticky side out. Drafting tape is better than masking tape for this purpose, since masking tape is too sticky and likely will tear the flipchart sheets if you try to move ovals around.
- A sharpened, soft lead pencil with attached eraser for each participant. These will be used for tentatively linking ovals via arrows and for making notes on the map.
- Large erasers for use with lead pencils. These will be used for large erasing jobs.
- Self-adhesive dots in various colors to identify the nature of particular ovals or clusters of ovals and for straw polls. Have on hand packets of at least one hundred red, purple, blue, green, and orange dots three-quarters of an inch in diameter. (Larger dots cover too much space, particularly when used for straw polling, while smaller dots are harder to see.)
- Suitable refreshments, such as coffee, tea, soft drinks, mineral water, fresh fruit, nuts, cookies, and pastry.
- A 35-millimeter fully automatic camera. This is to photograph the final map and the group as the process proceeds. The photographs can be used to remind participants of what happened, and to indicate to others the nature of the process that was followed.

Preparing a "Starter" Question

Have a "starter" question (or set of questions) already written out and clearly visible to participants. Starting with the "right" question is very important, since it will have a dramatic impact on the answers. The question should be reasonably broad without being ambiguous. It should not be so narrow as to invite only "yes" or "no" views. The planning team probably will need to devote considerable time to developing and pilot testing the starter question(s), including consultations with key informants.

Introducing the Process

Participants will want information about the purpose of the session and the process to be used. For presentation purposes let us assume that the purpose of the session is to develop a sense of the strategic issues that face the organization and possible strategies that might address them.

1. Introduce the session by saying that the purpose of the session is to gather opinions about the issues the organization faces and what might be done about them. All of the information created will be used to inform the strategic planning process. Be as specific as you can be about what will happen to the information and how it will be used; typically,

this means that the information will influence decisions rather than result directly in decisions.

2. All views must be written down on ovals or else they will get lost. This is an important opportunity for participants to have a significant influence on the identification of issues and development of strategies. Note that the process will result in a very efficient use of participants' time, since they can all "speak" simultaneously when writing on ovals -- increasing each person's "air time" -- and "listen" simultaneously when reading them.

3. Ideas should be expressed in action terms, preferably starting with a verb, such as do, buy, get, formulate, implement, achieve, or some other imperative.

4. The process does not necessarily seek consensus or attempt to resolve conflict. Instead, the purpose is to clarify and understand how individuals and the group view the organization and its environment. If there are disagreements, it is important to clarify the rationales behind them and record them on separate ovals. It is not acceptable to remove other participants' ovals, to edit them without their consent, or to disparage the ovals or their authors.

For example, in one recent exercise designed to address the needs of students with disabilities, one group thought an oval labelled "Have inclusive educational environment" meant having blind and hearing-impaired children in regular classrooms with sighted and hearing students. Another group thought it meant having separate schools for blind and hearing-impaired children, so that they could experience being in a majority. Each view was place on a separate oval and had an arrow going into the "Have inclusive educational environment" oval.

5. Put ideas up on the wall as soon as they have been written down -- rather than allowing participants to hoard them -- so that others may see the ideas and build ("piggyback," "hitchhike") on them. You only need a small amount of self-adhesive putty (about the size of a split pea) with which to attach an oval. Larger amounts are a waste and also make it harder to move ovals around.

6. A facilitator or the participants themselves should sort the ovals into clusters that make sense. Clusters should be organized according to common themes or subjects. The advantage of using a facilitator is that all participants can observe and join in the discussion of where each idea belongs. A shared group understanding of what all the ideas are may therefore emerge more quickly than if participants work in subgroups of two or three. If a facilitator does do the sorting, however, all participants should be encouraged to offer advice on where ovals should go. If participants do not know where they should go, the ovals should be placed to one side, to be revisited by the group after all the clusters have been examined, or else the facilitator should sort them into the appropriate clusters as they become apparent. (Often, some combination of small-group and large-group work is desirable. For example, small groups may do the initial clustering and then a facilitator may help the large group make sense of the initial clusters and do any regrouping that is necessary

7. Keep the wording of ideas to around eight to ten words. This will help assure there is only one idea per oval, as well as make it easier for participants to read each other's ideas. The facilitator should encourage participants to lengthen shorter answers so that their meaning is more clear.

Facilitating the Process

1. Some participants may grasp the process quickly, start writing up and displaying their ideas, and actively participate in structuring clusters of ideas. Others may take longer

before they feel comfortable with the process and actively engage in it. It usually takes no more than twenty minutes to half an hour for everyone to be "on board."

2. Ideas are first sorted into clusters that make sense. The next step in "structuring" the clusters involves placing ideas that are more general, abstract, or goal-oriented near the top of clusters. Ideas that are more concrete, specific, and detailed are placed toward the bottom. Also, assertions or statements of fact (our budget will be cut ten percent, client numbers are growing twenty percent per year, the executive director will retire in one year) are placed toward the bottom.

3. Encourage participants to elaborate on the ideas and emergent issue clusters by asking questions. Say, for example, "I do not really understand this, could you say more?" or "How would you make this happen?" or "What would you hope to get out of doing this?" Questions also prompt other participants to add alternative perspectives as they discover that their interpretation is different from the proponent's.

4. Make sure that ideas are worded in the imperative to suggest an action orientation.

5. Each oval should contain only one idea. If an oval contains more than one, have participants make separate ovals for each idea. If an oval contains more than twelve words, usually it means there are two separate ideas represented.

6. Keep encouraging people to write their ideas down, especially those participants who are less verbally dominant. One way to do this is to write a person's ideas on ovals as he or she is speaking and then place them on the wall to give the person confidence that his or her ideas are worth including. Groups who are discussing or debating ideas can be encouraged to capture their views on ovals and attach them to the wall.

7. It can be helpful to number each oval as it is put up to help participants locate ideas on the wall. Numbering also helps if computer support (see below) is used.

Further Structuring the Clusters

1. Tentatively title the clusters. Once fairly stable clusters appear and the number of new ideas diminishes, review each cluster and give it a name that describes the theme or subject of the ovals that comprise it. Write the name, phrased in action terms (get our finances sorted out, improve board-staff relations) on a new oval and place it at the top of the cluster. The cluster label typically will be the name of a potential strategic issue -- indicated by the content of the cluster -- while all of the ovals beneath it will consist of options for addressing the issue.

2. With the help of participants, pencil in links within clusters and across clusters. Arrows to an idea indicate causes, influencers, or something that has to happen first (the rules do not need to be absolutely precise). Arrows from an idea indicate effects, outcomes, or consequences. Using a pencil is a good idea, because the placement of arrows can change based on discussion. Use an eraser to get rid of unwanted arrows. The placement of arrows can show participants which clusters or ideas are more important or "busy" by representing the number of cross-links they have to other clusters or ideas.

3. Decide whether the idea on an oval is an issue label, possible option, assertion, assumption, or statement of fact. Assertions, assumptions, or statements of fact are not directly actionable (except that they may call for further research) and should be placed at the bottom of clusters. Typically they provide premises for subsequent strings of possible actions. For example, if the executive director will retire in one year, then a search committee may need to be established, the job description reviewed, and a choice made whether to search for a replacement outside the organization as well as inside. Assertions

or statements of fact also may lead to research to find out whether they are true, or else may be converted to options by highlighting any implied actions.

Optons are those ideas that contribute to achieving the purpose of a cluster as indicated by the cluster's title (the most superordinate oval). They are actionable (produce staff phone directory, conduct focus groups, use a telephone bank for fundraising), rather than being assertions or statements of fact. Issues, the label for a cluster of options, are more complex. They are usually the most superordinate oval, although discussion may indicate that some other existing or new oval may capture the essence of the issue better. Issues usually are broad-based, long-term, and highly consequential in terms of associated threats or opportunities, effects on stakeholders, resource use, or irreversibility of possible strategies to address them. Issues may be identified by marking the relevent oval with an asterisk or colored stick-on dot.

4. Once ovals are arranged hierarchically as issues, options, and assertions, decide on the relative importance or priority among the issues. Colored stick-on dots may be used to take a straw poll of participants' views of the issues in terms of their relative importance, priority, or presumed "leverage" on helping to achieve goals. For example, give each participant five dots and ask him or her to place one dot each on what he or she considers the five most important issues. Alternatively, participants might be allowed to put more than one dot on an issue label to provide a measure of intensity of feeling. It may also be helpful to straw poll participants directly on the relative unimpotance of the issues.

Often it is important to know which issues participants think are most important in the short term and which are most important in the long term. One color dots can be used to identify important short-term issues, and another color can be used for long-term issues.

5. Identify goals by asking "So what?" questions about the issue clusters. In other words, query participants about what they would hope to achieve ("arrows out") by addressing the issues effectively. Usually this line of questioning (or "laddering"; see Eden and others, 1979, appendix) leads participants to additional issues or options before the goal set is fully specified. Candidate goals will be those ideas that are self-evidently good things in their own right, and do not seem to need any further elaboration. Typically they are morally virtuous and upright and tap the deepest values and most worthy aspirations of the organization's (or community's) culture. For example, pursuing this line of questioning led School District's board to the goals outlined in Figure _b (ideas 3, 66, and 34). Goals may be identified with stick-on dots of a color not used before, or Post-Its to highlight their significance through contrast with the dots. Again straw polling procedures may be useful to indicate what participants believe are the most important goals.

Formulating and understanding a goal system includes identifying linkages among goals, issue labels, and options that comprise issues. When working in a large group divided into subgroups, it is often useful to have subgroups switch the map they are working on after strategic issues have been identified-- that is, groups should try to figure out the goal system implied by some other group's strategic issues. This procedure can open groups up to one another's thinking, promote creativity, and lead to a convergence across groups on goals, issues, options, and assertions.

The most superordinate goals in a strategy map usually outline the organization's mission. If there is little connection between these goals and the organization's existing mission statement, then what the organization's mission should be is probably a strategic issue.

6. Decide on actions for the immediate future to address the issues and achieve the goals. The group should review the options and their resource implications and indicate which are already being done and which new ones should be pursued over the course of the

next six months to a year. Those options that help address more than one issue ("potent options") are particularly desirable ones to choose. A straw polling exercise -- typically using green dots for "Go" -- may be used to pool participants' opinions about which items should be included in the action set. The group may wish to place two dots on items it wishes to take responsibility for itself, and single dots on items it wishes to delegate to others outside the group for action. Once actions to address an issue have been chosen, the broad outlines of a strategy should be reasonably clear from looking at the map. The action set also typically comprises the basic tasks to be included in a work program that names the responsible parties, reporting dates, resources needed, and expected products or outcomes.

6. Provide closure to the session. It is possible to get many groups of five to approximately thirty participants (in several subgroups) through the process of constructing a draft map (including identifying goals, strategic issues, options, assertions, and actions) in a retreat setting over the course of a long day -- or as part of a two- or three-day retreat that includes other activities, such as stakeholder analyses and SWOT analyses. At the end of the mapping exercise, some sort of closure is desirable, usually in the form of a review of what the group has done, what understandings or agreements have been reached, and a statement of what the next steps in the strategic planning process will be. For example, individuals or task forces may be assigned specific action items, or the task of developing the issues further and recommending strategies for dealing with them.

After the Map Construction Session Is Over

There are several ways to record the group's work:

1. The map can simply be taken off the wall and saved. Before doing so, however, it is advisable to to run long strips of transparent tape across all of the ovals so that they do not come loose. The saved map can be posted wherever it is convenient so that its contents can be recorded in outline form, or so it can provide a focus for followup sessions.

2. Contents of the map may be recorded on a computer as the group discusses them, either in map form using a software especially designed for the purpose (Graphics COPE; see below), or else in outline form.

3. The map also may be photographed. A standard, fully automatic, 35-millimeter camera with built-in flash can be used to photograph each flipchart sheet separately. As long as participants have written legibly on their ovals, the map's contents can be read from the photographs. Photographs thus provide a useful backup, in case the map itself gets lost, provide a reminder to participants of what the day was like, and can help nonparticipants understand what the process was like. The photographs can be mounted on sheets of letter paper (four to a page), inserted into transparent holders, and put into a three-ring binder, along with a title page, date, and list of those who attended. Alternatively, there are photocopying machines that can copy full flipchart sheets, reducing them to a smaller size if that is desirable.

Useful Variations on the Mapping Process

The mapping process is very flexible and can be used in various ways over the course of a strategic planning process. For example, when using the indirect approach to identifying strategic issues, options are invented to make or keep stakeholders happy; build on strengths, take advantage of opportunities, and minimize or overcome weaknesses and threats; and capture action-oriented features of mission and mandates, existing strategies, and background studies or reports. These options (assertions, issues, goals) are then arranged into clusters in an effort to find issues that emerge "indirectly" via the options. The mapping process obviously can be used to provide additional structure to the issues and options, and to clarify the goal system that might be pursued by addressing them. This was the approach used by the Consumer Price Index Program management group to identify strategic issues. The importance of the issues that emerged to address stakeholders, including the need to communicate better with them and to enhance their satisfacation with the CPI's products and operations, led to new goals that ultimately resulted in changing the CPI program's mission.

Stakeholder Analyses. Mapping may be used to develop a more integrated picture of an organization's stakeholders and how they relate to each other and to the organization. For example, the planning team might try to articulate each stakeholder's goal system. This might be done by first asking what criteria the stakeholder might use to judge the organization's performance, or what the stakeholder's expectations are of the organization. The team can then extrapolate the implied goals from these criteria or expectations, and postulate any other goals they think the stakeholder might have.

The team can then expand the map for each stakeholder by placing the team's own organization's goals on the map and indicating what the stakeholder does or can do to affect achievement of the organization's goals. Next the team can identify what their own organization does or can do to meet the stakeholder's criteria or expectations. The pattern of influences and outcomes can then be explored and elaborated. The resulting map should help the team be clear about what the organization wants or needs from the stakeholder; what the stakeholder can do to give or withold it, and why; and what the organization can do, if anything, about it.

These maps should help highlight potential strategic issues and the elements of useful strategies. They also can be used for "role plays" within the strategic planning team aimed at developing strategic options that are most likely to address stakeholder interests effectively, build a supportive coalition, and ensure effective implementation. To conduct a role play, each member of the planning team should play the role of different stakeholder. With the stakeholder's map as a guide, each team member should answer two questions about any strategic option (or portfolio of options) from the stakeholder's point of view: How would I react to this option, and what could be done that would increase my satisfaction with it? Modifications should be placed on ovals and linked to, or substituted for, the focal option. Strategic options may thus be modified through a series of role plays in such a way that stakeholder support and satisfaction can be increased, and implementation success made far more likely (Eden and Huxham, 1986; Huxham and Eden, 1990).

The maps also are helpful in clarifying areas of potential collaboration with different stakeholders. In particular, the maps can highlight any potential "collaborative advantages," which occur when it is clear two or more stakeholders can achieve desirable outcomes jointly that they cannot achieve alone (Huxham, 1993).

Unpacking "loaded concepts". Often strategic planning is stymied temporarily by the need to deal with issues that carry extraordinary emotional freight for various stakeholders. The need to address issues of gender, race, disability, or political ideology, for example, have all given headaches (sometimes heartaches) to teams with which we have worked. The issues are highly emotive because of the psychic or physical negative consequences people have suffered already, or think they might suffer depending on how the issues are resolved (Ortony, Clore, and Collins, 1988; Kaufman, 1992). Reasonable dialogue becomes difficult or impossible in ordinary circumstances.

For example, in 1993 a large group of seventy stakeholder representatives working under the auspices of the United States Department of Education was interested in developing a national agenda for better addressing the needs of students with disabilities. The group was stymied by what "inclusive" education meant for students with disabilities. The emotional temperature was high and many people were willing to accuse others of pretty awful things. There was a certain humor in the irony that what <u>divided</u> people was <u>inclusion</u>, but few present saw anything at all funny in the situation. Group members imagined the worst about each other partly because in the absence of real dialogue no one really knew what others thought, and therefore many were prone to stereotype, project, and rationalize in inaccurate and unhelpful ways. Eventually, the group was unwilling to proceed further until the facilitators helped them deal directly with this issue of inclusion. In response, the facilitators invented a variant of the mapping process employing the following guidelines:

1. Write the "loaded concept" on an oval and place it in middle of a wall covered with flipchart paper. In the case of the education group, the loaded concept was "inclusive education for students with disabilities."
2. Have participants seat themselves in a semi-circle in front of the wall.
3. Ask each person to take out a sheet of scratch paper and draw a line down the middle dividing it into two columns of equal size. Label the left column "How?" and the right column "Why?" Then have each person individually and silently brainstorm as many answers to the two questions as possible. In the case of the education group it meant brainstorming as many possible <u>means</u> to achieving inclusive education as each person could imagine (the how question), and and as many possible <u>ends</u> (outcomes, consequences, goals) of inclusive education as they could imagine.
4. Have each person select a specified number of the most important means and an equivalent number of the most important ends and write each one on a separate oval. In the education case, participants were asked to select one item from each list since there were seventy people in the group and a greater number would have drawn the process out too much and probably generated redundant ideas.
5. Cluster the "means" ovals below the loaded concept and cluster the "ends" ovals above. Structure can be added if necessary to indicate how the various ideas within and across clusters are related.
6. Lead participants in a conversation about the resulting clusters. Add ovals, linkages, and clusters as necessary. As the precise nature of the disagreements become more clear, people are better able to discuss them, including inventing additional options or goals along the way. Keep asking "how" and "why" questions to help clarify people's reasoning and keep them from coming to blows over particular options. In other words, help people to be reason-<u>able</u>. Record key points right on the flipchart-papered wall or on a separate flipchart.

In most cases, the major disagreements will be over means and not ends. The map will make this graphically clear. When people realize they actually <u>share</u> some important goals, they are far more likely to engage in constructive dialogue about how to achieve them (Filley, 1975; Fisher and Ury, 1981; Susskind and Cruikshank, 1987; Johnson and Johnson, 1991; Terry, 1993). They also are less likely to stereotype, project, and rationalize in destructive ways (Fisher and Brown, 1988). In the education case, many participants were surprised to find out that the entire group really did share most of the goals, but differed on the far more numerous means. Heightened respect emerged, along with a less fraught atmosphere and a commitment to problem-solve. After a number of months, the project ultimately resulted in a valuable report and sense of direction for the future (United States Department of Education, 1993).

Scenario Construction. The mapping process also can be used to develop the elements of scenario story lines. The main benefit of constructing scenarios is to promote learning by the planning team; sensitize them to plausible, though perhaps unlikely, futures; and develop strategies better able to handle most eventualities (de Gues, 1988; Schwartz, 1991). The following guidelines may be used:

1. Prepare a set of ovals for each team member that embodies the organization's mission, mandates, and existing goal system stated in action terms. The writing on these ovals should be in a different color than that used by participants to create the ovals in Guideline Two.

2. Have the planning team consider the three external assessment categories: forces and trends (political, economic, social, technological); stakeholders who control key resources (clients, customers, payers, members of nonprofit organizations); and competitors, collaborators, and competitive and collaborative forces and advantages. Then each person should take out three sheets of scratch paper, one for each category, and brainstorm as many trends or events as they can imagine happening in each category. The team should also consider trends and events that might affect the internal assessment categories as well -- resources, present strategy, and performance. By looking externally and internally, the organization and all of its stakeholderholders are likely to be considered.

3. Each participant should place ten to twenty brainstormed entries onto ovals, one entry per oval. Each oval should indicate the source of the idea (forces and trends; resource controllers; competitors, collaborators, and competitive or collaborative force or advantages; resource; present strategy; performance).

4. The facilitator should merge the participant-created ovals into a single set and shuffle them. Each participant (or small group) should be given up to twenty ovals. The participants should then be asked to arrange their ovals into a map on a flipchart sheet-covered wall in a way that indicates a plausible (though not necessarily likely) set of influence relationships among them, and that connects them positively or negatively to the ovals indicating the organization's mission, mandates, and goal system. Any extra ovals should be added as necessary. In other words, each participant should construct a "story" that links the ovals together and indicates influence chains that would either help or hinder achievement of the organization's goals.

5. The team should then review each story and answer the following questions:

- What threats or opportunities are highlighted?
- Which stakeholders are affected by this story, and would they be happy or unhappy if it happened?
- What strengths or weaknesses might we draw on to deal with this scenario?
- In the case of threatening scenarios, what could we do, if anything, to keep this story from happening?
- If we cannot do anything to stop it, what should we do to defend against it? Or is there any way to turn it into an opportunity?
- What could we do, if anything, to make sure desirable stories happened?

The answers to these questions should be recorded. If the team uses the indirect approach to strategic issue identification, many of the answers can be placed on ovals and used to construct issue clusters. Similarly, if the team develops a strategy map, many of the ovals can be included in the map.

APPENDIX
D

CRITERIA
FOR MEASURING A
SUCCESSFUL OUTCOME

PAGES 403 - 408

CRITERIA FOR MEASURING A SUCCESSFUL OUTCOME

This represents the edited remarks given by Charles B. Finn, Director of the Banking and Community Economic Development Programme, Hubert H. Humphrey Institute, University of Minnesota, to the Fannie Mae Annual Housing Conference 1992: Discrimination in the Housing and Mortgage Markets.

The Community Reinvestment Act specifically addresses the critical need for equal access and opportunity by all parties and individuals to financial/credit markets. The rationale for this statement is founded on two separate bodies of writing having to do with market capitalism and social justice.

The market capitalist approach argues that overall, participants in a society will benefit most as a group if there are a few basic rules adhered to. Among these basic rules are guarantees to information about the market, the ability to compete in the market and access to the market. Within the particular areas of finance and credit, the ability to compete within this market is restricted to ensure financial stability as a reaction to the bank failures for the 1920-30s. Firms engaged in the business of finance and credit are licensed and regulated as a safeguard to successful markets, which is considered a threat to national security and sovereignty. Therefore, it is incumbent upon government to ensure that the other requirements of what are considered necessary for "free markets" are met. The Community Reinvestment Act was crafted to both establish these premises and to promote activities by the licensed parties to ensure "pareto optimal" outcomes for the market.

The social justice literature recognizes that despite so-called "rational market" thinking and action, there are acknowledged areas of race, religion, culture and income that directly affect an individual's and groups ability to interact within society and the market. Research in banking markets have consistently established these individuals and groups as having restricted access to the market and therefore, a discriminatory outcome. Due to the inability to access the markets, and that individuals and groups tend to locate in communities of similar identities, there are whole neighbourhoods and communities that are unable to realize their economic potential and therefore, are not able to reinvest and grow. This literature argues that equality of opportunity predicts to a certain extent, a roughly equal result, given other conditions are equal. Therefore, the Community Reinvestment Act requires that market outcomes of identified cohorts in terms of finance and credit should be similar.

Based upon the rationale given above, the Community Reinvestment Act requires regulated finance and credit industries to both analyse their activities to ensure equality of access by identified cohorts. If there is a disparity in this area, the Act further instructs the firms to undertake pro-active measures to remedy the discrepancies. Therefore, successful outcomes from the application of Community Reinvestment Act provisions would include discussions of societal benefits as well as short and long-term effects on the individuals, communities and firms.

There are three overall categories of measurement regarding a successful Community Reinvestment Activity from the strategic management perspective. These are an evaluation of cost to society in order to reach an agreement, the ability of the parties to sustain the agreement over the long term and the potential for parties to collaborate on other issues over the long term.

I. Minimum Cost to Society:

Given that government and a society exists over the long term with the popular support of its constituents (Thomas Jefferson and John Locke), it is incumbent upon all solutions mandated by governments to be recognized as being both effective and worth the costs. The question of effectiveness is usually addressed by the rule or mandate itself, while the cost to gain the solution is usually dependent on conditions established by the problem itself and the parties involved. While government and the society it represents may tolerate excessive expenditures in certain areas that deal with sovereignty, there is a general predisposition that societal benefits will be produced by a prudent investment of resources that will correlate in some manner understood by interested parties. All parties realize both a series of costs and benefits from any outcome. Specifically, low income and minority groups currently are "losing out" due to their inability to access the market and therefore cannot even maintain a status quo relationship to their white counterparts in terms of income and wealth. Financial institutions also are losing out as they are not realizing potential markets. An estimate of these societal costs would include discussions of the resource cost incurred by parties to the agreement to meet the outcomes mandated by government. A second measurement would involve the time necessary for parties to reach an agreement. The third measurement criteria would involve the time necessary to enact the agreement.

A. All parties will also incur a resource cost necessary to enact and follow through an agreement. These include loan funds, counselling costs and management overhead. An optimal agreement would direct these resources toward the parties identified in a manner that ensured the funds were used efficiently and prudently. A less successful outcome would be construed as one where resources were not allocated or used well for identified groups.

B. Within the public policy arena, there is an understood imperative for parties to "act in the public interest" as long as the public is interested. Therefore, public policy solutions must be dealt within a timely manner for two reasons. First is the need to stop the ongoing problem that continues to damage the parties denied access. Second is to ensure that options discussed in I-A. above are met as timeliness leads to a focussed problem-decision-implementation cycle.

C. Agreements when reached must be carried out in a time frame that is respectful to the gravity of the issue and the ability of the parties involved to address it. Agreements that set too short a timberline run the risk of not being comprehensive and directed. Agreements that are too long to enact risk not being able to solve the problem in a manner that invites further action by affected parties. In addition, all parties are identified with the timing failure and its consequences.

The Ability to sustain agreement over the long term:

There is fundamental discontinuity between the capacity of private sector firms and government and community organizations to address problems and solution. The financial sector in particular is capable of approaching problems and solutions over the long term. Indeed, they are mandated to do so to ensure financial market stability. For these type institutions, approaching a problem of the order magnitude of the CRA requires considered and reasoned approaches that they would prefer to be addressed over the long term. Government is an institution controlled by elected officials that operate on a short term mandate and tend to look towards solutions that are comprehensive and quick. Community organizations are aggregations of individuals that happen to live next to each other and represent the common needs of the individuals who organize. These organizations tend to look for solutions that are immediate and solve identifiable problems at the individual level. The result of meetings between these organizations with differing mandates can lead to frustration and gridlock, even if they commonly agree on a problem due to their different process capabilities. Solutions that will succeed over the long term must recognize the organizational constraints and needs. Successful solutions should be identifiable as including the affected parties in the initial agreement as well as inclusion throughout the life of the agreement.

A. Institutions tend to be long term entities, while political elections and community organizations have less capacity in this area due to their turnover. Agreements must recognize this difference and accommodate for it by setting up well defined operations schedules and expectations. (Iroquois seven generations theory)

B. All parties affected by an agreement should have the ability to input in the original decision as they will have to live with its effects and will not honour it if it does not accommodate their needs. Needs can be addressed as both physical and social in terms of support and educative, and respect.

C. All parties affected by the agreement should have the ability to communicate and contribute to the solution process in order to sustain their support over the long term. Given the transience of government and community leadership, there is a need for continued ratification to ensure continued support.

D. Institutions and organizations tend to not be monolithic. Strategies that recognize that solutions by organizations are (or are not) supported by different levels or factions within organizations will be more likely to realize their potentials.

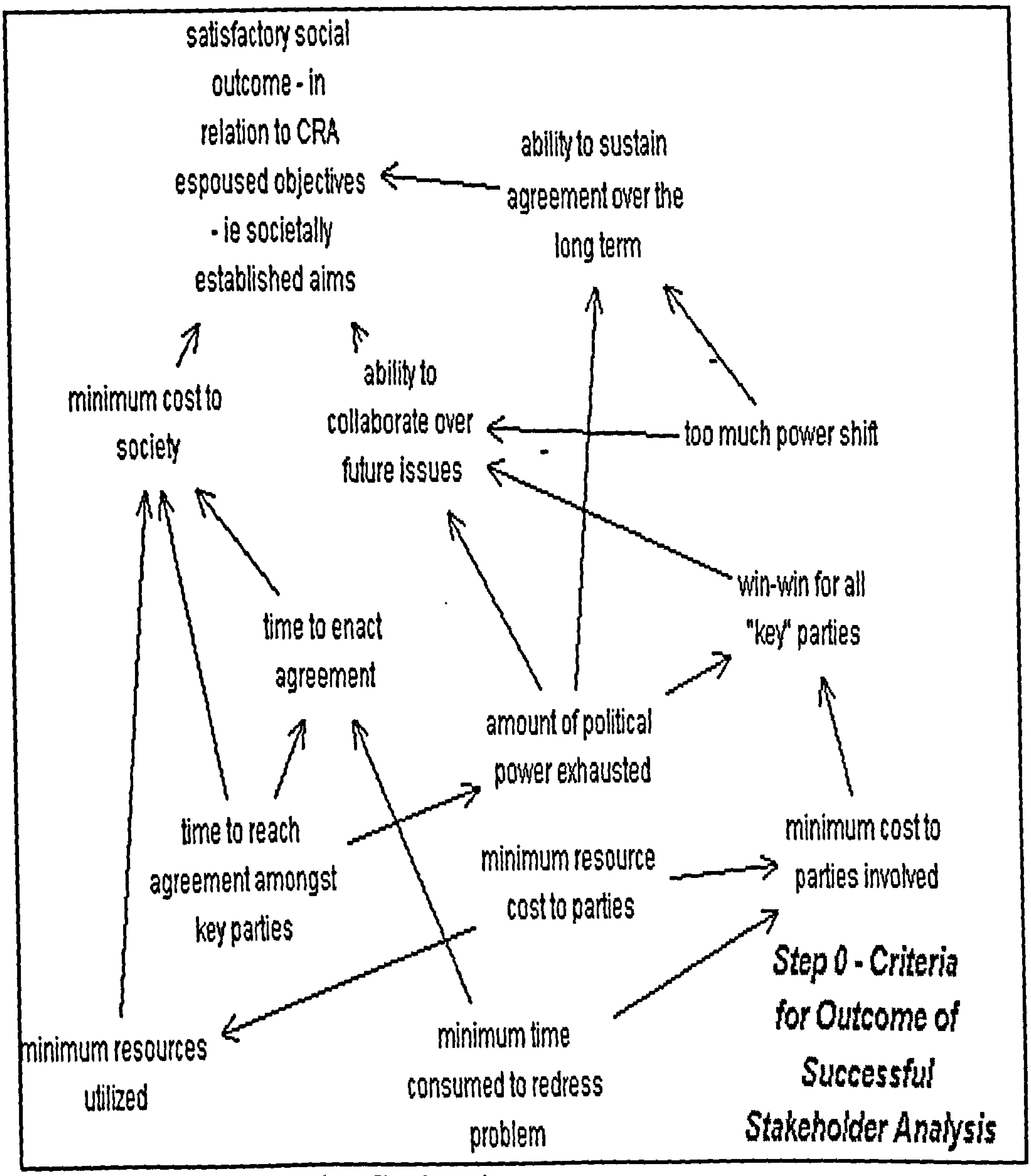
<u>The potential to collaborate over other issues in the future:</u>
No matter how important a particular issue is to one or all parties involved, solutions must be respect process that allow parties to continue to work together over the long term. Not only on the particular problem, but on others. Agreements that "burn bridges" are counter-productive over the long term as support for the original agreement will be lessened when parties recognize the negative effects it has on other important issues. Process solutions should recognize and accommodate the personalities involved and take advantage of the energies they bring toward solutions. At the same time, process solutions must recognize the solutions must be capable of sustaining itself long after the personalities have moved on.

A. Coalitions and collaborations must explicitly understand the capacities and relationships brought by parties necessary to the agreement in order to move the solutions beyond personalities.

B. Agreements must acknowledge and honour the investment of organizations not only for their input to the solution, but for their ability to sustain (or move against) the solution over the long term. Organizations will tend to invest in future activities to the extent they find they benefited from past relationships.

C. Institutions and organizations tend to not be monolithic. Process and solutions that recognize who or what faction within an organization are willing and able to work towards solutions will benefit long term by establishing communication lines. These already established communication lines can then be utilized toward solutions in future ventures

Below is a concept map of the above discussion:



Concept Map Illustrating Rationale