

Stakeholders Interests Analyse and Harmonization – Starting Point of Strategic Approach

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Abstract: *The company strategy is in fact, the result of the interaction of the internal and external stakeholders and it has to harmonize the divergent shareholders interests and to determine their effective and efficient involvement into the firm activity.*

Ignoring a certain stakeholder category could determine unfavourable effects for the organization, such as losing performing employees, capital withdraws or shareholders support, which, finally, conduct to a image and financial situation depreciation. This is the reason why it is crucial for a business to balance the interest of its various stakeholders.

Stakeholder management represents a process of interests analyse and harmonization in order to identify the most sustainable solution for long-term company development. It is also a communication process which allow to consult, inform and to explain to all company stakeholders the implemented strategies and their implication.

This paper presents the concept, the main categories of stakeholders and their interests. There is also presented the methodology of Stakeholders Analysis and Management, which represents the stating point of a strategic process.

Keywords: *Stakeholders, stakeholders interests, Stakeholders Analyse, strategic management*

Introduction

In company strategy designing and implementation, organization has to take into consideration a large range of interests related to its own development, community, employees, general public etc.

Management literature recommends a deep analyse of all those persons, institutions or group which could be interested or which could be affected by company decisions and actions in order to realize an harmonization of different and convergent interests of stakeholders.

1. Main Categories of Stakeholders and their Interests

Stanford Research Institute introduced in 1963 for the first time the concept of the stakeholder. It defined stakeholders as "those groups without whose support the organization would cease to exist". The concept was later developed and in 1980, R. Edward Freeman created the stakeholder theory. [4, 88-106]

During the last decades there were several definition and approaches for the Stakeholder concept. Based on these definition, we consider that *stakeholders are the persons, institutions, organizations, formal and non formal groups which are interested or can be affected or which could influence the company decisions or actions.*

There are several classifications of stakeholders which allow us a better understanding of the concept, and, also to identify the way they are influencing or they are influenced by the company decisions.

According to their position in report with the organization, we can identify Internal and External Stakeholders.[3,15]

- **Internal Stakeholders** have a range of interests in the different parts of the company and its activities. Internal stakeholders include: shareholders, employees, managers and Board of Directors.
 - Shareholders are key internal stakeholders. As investors, they take a financial stake in the company by purchasing shares and they are interested for the best return on investment which is usually made in the form of a share of the profits. Their main

interests are orientated to increase the efficiency of the activity by reducing the costs, in order to increase the dividends paid to the investors.

- Employees are another important internal stakeholder group because, by their energy, professionalism and involvement they contribute to the organization development. Their main interests are mainly related to high and correct level of remuneration, appropriate and safe work conditions, participating at different professional and personal developments programs, flexible working program, and different promotion and development opportunities. All their interests determine an increase of labor costs and are contradictory to shareholders interest.
- Managers and Board of Directors represent a small but powerful internal stakeholder group. As they are directly involved in strategic process, they can influence important decisions related to other company acquisitions, merges, liquidation of parts of the company, new markets penetrations. Agency theory identify the conflict between the managers and shareholders interests. As we have already presented, shareholders are mainly interested by the company value maximization, while the managers prefer to expand the company, even if it could determine on a short term a depreciation of the company value and supplementary related risks. Sometimes, decisions related to external growth strategy have as a support the personal motivation and managers vanity. Adopting such kind a strategy is often associated with an efficient management and a successful manager, even if, on a long term, these decisions could damage to the company future.
- **External stakeholders** are individuals, companies or groups outside the companies which are influenced or could influence company decisions and activities. The main categories of external stakeholders are: customers, suppliers, business partners, community, society.
 - Customers have a real role in helping the business to develop and grow as they are expecting good value, high-quality products and great services. Identifying the customers' interests has to be the main concern of each company because it represents a source of activity improvement ideas. In this respect, companies achieve this through close relationships and consultation with customers, market researches and surveys of customer opinion. All these efforts orientated to customer satisfaction contribute to a longer-term relationships between company and its customers based on loyalty, partnership, mutual advantage and satisfaction. On the other hand, all these activities imply significant human and financial efforts which could affect, on short term, the company profitability and the shareholders interests.
 - Suppliers and business partners also hold a stake in the company to which they provide materials and services. These entities are mostly interested in developing a long-lasting business relation based on mutual advantage and promotion. On the other hand, companies should ask to their business partners to respect their own internal standards, to follow all relevant laws, to promote best practice and respect environmental conditions (such as using sustainable sources for paper or dealing responsibly with waste products) in order to avoid that the partnership does not influence in a negative way the company image.
 - Community and society expects to the company to adopt an ethical and moral behavior, to involve and financially support the community life through voluntaries activities, sponsorships, donations, charity fundraising, partnerships, to finance culture, education system etc. Also, companies are expected to implement in their business practices ethical, moral and environmental values, to promote chance equality, open dialogue etc. All these activities require important financial and human efforts materialized in supplementary costs

We can appreciate that, the company strategy is in fact, the result of the interaction of the internal and external stakeholders, as it is represented in the figure no. 1.

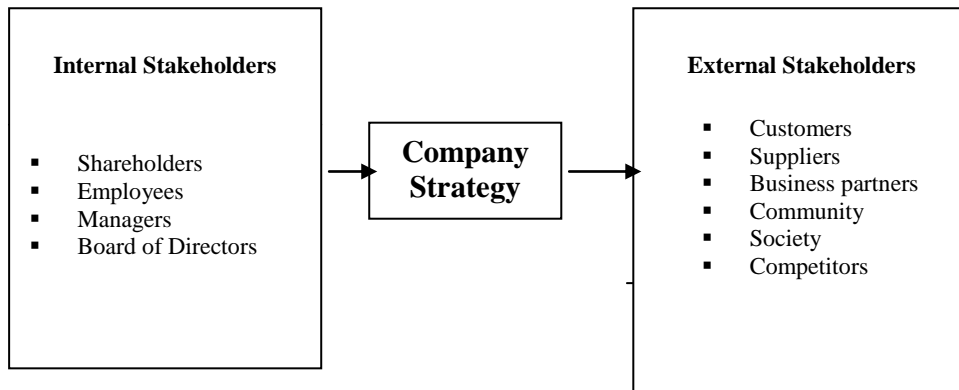


Figure no.1 Company strategy as a result of the interaction of the Internal and External Stakeholders
[2, 18]

As it is represented, the company strategy has to ensure the divergent shareholders interests and to determine their effective and efficient involvement into the firm activity. Ignoring a certain stakeholder category could determine unfavourable effects for the organization, such as losing performing employees, capital withdraws or shareholders support, which, finally, conduct to a image and financial situation depreciation.

According to the way they are influenced on the company decision or action, we can identify three categories of stakeholders: [5,31]

- **Primary stakeholders** are the people or groups which are directly affected, in a positive or negative way, by a strategy, decision or action of a company, organization. Usually, a decision influence in the same time, positively and negatively different groups. For example, an increase of salary positively influence the employees interests and negatively the interest of shareholders.
- **Secondary stakeholders** are people or groups that are indirectly affected, either positively or negatively, by a company decision or action.
- **Key stakeholders** are people or organizations who might belong to either or neither of the first two groups. Key stakeholders play an important role in decision making process and also in its implementation because they are involved in company management or financing, they are policy makers, officials, important professionals or community personalities having a strong position or influence.

2. Stakeholders Analyse and Management

Identifying and understanding company stakeholders and their interest represents the starting point of designing the company strategy because the main aim of strategic planning is to harmonize the different and divergent interests of stakeholders.

Stakeholder Management is an important tool which allow to identify which stakeholders might have the most influence over the success or failure of the company, which are the most important supporters and opponents when implementing a decision. Based on this analyse managers can adjust their decisions and, also, can make plans for dealing with stakeholders having different interests and different levels of influence.

Stakeholders analyse (or stakeholder mapping) is a five steps process:

1. Identifying stakeholders. In this phase it is very important to develop a creative thinking in order to identify all the company stakeholders, and not only the obvious ones. In this respect, it is highly recommended to use some methods which are stimulating creativity, such as:

- brainstorming;
- collecting categories and names from informants in the community, particularly members of a population or residents of a geographic area of concern;

- consulting with organizations which are or have been involved in similar activities, or that work with the population or in the area of concern.
- organizing community meetings and other communication activities for informing about the project.

2. *Discovering and understanding stakeholder interests.*

Stakeholders' interests can be many and varied. A few of the more common are related to: economics aspects, social change, work, security and safety, environmental issues, education and awareness.

3. *Stakeholder analysis/stakeholder mapping.*

Stakeholder analysis (stakeholder mapping) is a way of determining who among stakeholders can have the most positive or negative influence on a decision or action, who is likely to be most affected, and how company should work with stakeholders with different levels of interest and influence. Most methods of stakeholder analysis or mapping divide stakeholders into one of four groups, each occupying one space in a four-space grid:

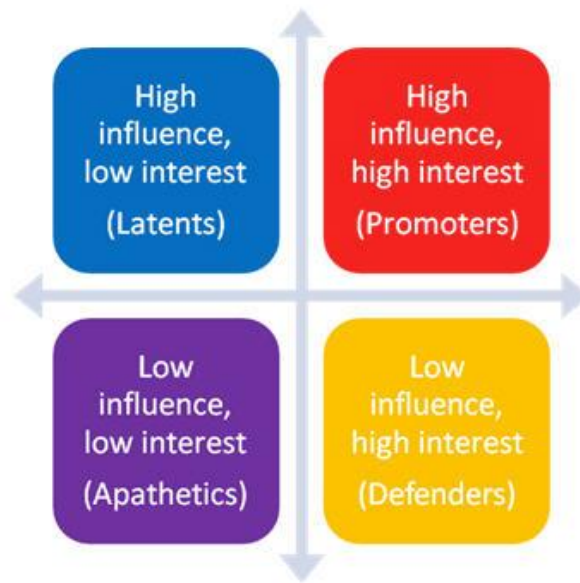


Figure no. 2 Stakeholder Mapping [8]

This diagram allow us a better understanding regarding what kind of influence each stakeholder has on an organization and/or the process and potential success of the action. That knowledge in turn can help company to decide how to manage stakeholders – how to coordinate the help of those that support, how to involve those who could be helpful, and how to convert – or at least neutralize – those who may start out feeling negative.

An assumption that most proponents of this analysis technique seem to make is that the stakeholders most important to the success of your effort are in the upper right section of the grid, and those least important are in the lower left. The names in parentheses are another way to define the same stakeholder characteristics in terms of how they relate to the effort. [8]

- *Promoters* have both great interest in the decision and the power to help make it successful (or to fail it).
- *Defenders* have a vested interest and can voice their support in the community, but have little actual power to influence the decision in any way.
- *Latents* have no particular interest or involvement in the decision, but have the power to influence it greatly if they become interested.
- *Apathetics* have little interest and little power, and may not even know the decision exists.

The people we have described as “key stakeholders” would generally appear in the upper right quadrant. These stakeholders could be, in fact, either promoters or opponents, and the same – with different degrees of power and interest – goes for the other three sections of the grid. In many cases, there will be people in both camps in each quadrant, and among the tasks of the organization(s) conducting the effort are to turn negative influential stakeholders to positive, and to move as many current and potential supporters as possible closer to the top right of the chart.

4. Stakeholder management. Stakeholder management allows using the analysis to gain stakeholders support for implementing a strategy, action etc.

The first step in stakeholder management is to understand clearly where each stakeholder lies in the grid. Someone that has both a major interest in and considerable power over the organization and/or the effort – a funder, for example, or a leader of a population of concern – would go in the upper right-hand corner of the upper right quadrant. Stakeholders with neither power nor interest would go in the lower left-hand corner of the lower left quadrant. Those with a reasonable amount of power and interest would go in the middle of the upper-right quadrant, etc. Eventually, the grid will be filled in with the names of stakeholders occupying various places in each of the quadrants, corresponding to their levels of power and interest.

The next step is to decide who needs the most attention. In general, the business people who use this model would say that you should expend most of your energy on the people who can be most helpful, i.e., those with the most power. Powerful people with the highest interest are most important, followed by those with power and less interest. Those in the lower right quadrant – high interest, less power – come next, with those with low interest and low power coming last.

Another way to look at stakeholder management is that the most important stakeholders are those most dramatically affected. Some of those, at least before the effort begins, may be in the lower left quadrant of the grid. They may be too involved in trying to survive – financially or physically – from day to day to think about an effort to change their situation.

Each type of stakeholders, represented in a different quadrant, needs a certain **approach**, as following

- **Promoters** – the high influence/high interest folks – are the most important here. They are the ones who can really make the effort go, and they care about and are invested in the issue. If they are positive, they need to be cultivated and involved. Company has to find jobs for them (not just tasks) that they will enjoy, and that contribute substantively to the effort, so they can feel responsible for part of what’s going on. It is also very important to pay attention to their opinions, and accede to them where it’s appropriate. If their ideas aren’t acted on, make sure they know why, and why an alternative seems like the better course. As much as possible, it is recommended to make them integral parts of the team. When people who could be promoters are negative, the major task is to convert them. If it is not possible, they become the most powerful opponents of your effort, and could make it impossible to succeed. Thus, they need to be treated as potential allies, and their concerns should be addressed to the extent possible without compromising the effort.
- **Latents** – high influence/low interest. These are people and organizations largely unaffected by the effort that could potentially be extremely helpful, if they could be convinced that the effort is important either to their own self-interest or to the greater good. Company has to approach and inform them, and to keep contact with them over time, to offer them opportunities to weigh in on issues relating to the effort, and demonstrate to them how the effort will have a positive effect on issues and populations they are concerned with. If the company succeed to shift them over to the promoter category, they become valuable allies. If they have a negative and oppositional attitude and if they are not particularly affected by or concerned about the effort, even if they disapprove of it, the chances are that they will not interfere. If they begin to voice opposition, company should try to converse or neutralize their rather than starting to battle.

- **Defenders** – low influence/high interest. Taking into account that these people and organizations have a low influence and a high interest, company should keep them informed and not worry too much about involving them further.
- **Apathetics** –low interest and low influence. These people and organizations don't care about company effort one way or the other. They may be stakeholders only through their membership in a group or their position in the community; the effort may in fact have little or no impact on them. As a result, they need little or no management, they have to be sporadically informed by newsletter or some similar device, and don't offend them.

5. Evaluation of the stakeholder process. Evaluation of the stakeholder process should be an integral part of the overall management evaluation. Company have to assess if it succeeded to harmonize the interest of the stakeholders, to convince and to involve them in decision making process and in its implementation.

Conclusions

Businesses and companies are parts of the economic, social and natural environment. In this respect, business strategies influence a large number of people, companies, institutions and organizations which are generally entitled stakeholders. Different stakeholder groups have different priorities, related to: profit, dividends, salaries, work conditions, training and promotion opportunities, mutual advantage partnership, loyalty, environmental protection, financial supports for community, ethical and moral issues etc.

This is the reason why it is crucial for a business to balance the interest of its various stakeholders. Stakeholder conflict arises when the needs of some stakeholder groups compromise the expectations of others.

Stakeholder management represents a process of interests analyse and harmonization in order to identify the most sustainable solution for long-term company development. It is also a communication process which allows to consult, inform and to explain to all company stakeholders the implemented strategies and their implication.

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