## Stakeholder Management

Who should control the corporation? How? And for the pursuit of what goals?
Historically, the corporation was controlled by its owners – through direct control of the managers if not through direct management – for the pursuit of economic goals. But as shareholding became dispersed, owner control weakened; and as the corporation grew to very large size, its economic actions came to have increasing social consequences. The giant, widely held corporation came increasingly under the implicit control of its managers, and the concept of social responsibility – the voluntary consideration of public social goals alongside the private economic ones – arose to provide a basis of legitimacy for their actions.

Henry Mintzberg[1]

### The Concept of Stakeholder Management

Today, all players in business face the interest and the impact of different people and groupings. Especially larger corporations have to care not only for the needs of their direct owners, but also of various other groups, like employees, public interest groups like environmental organizations, strategic partners, journalists or public monitoring bodies. According to each companies individual situation, this list could easily be extended.
Therefore, all businesses operate within a complex system of interests and influences. Management has to assess and evaluate these external forces in order to adjust them with corporate objectives.

These individuals and groups who depend on the organization to fulfill their own goals and on whom, in turn, the organization depends, are called **stakeholders**.

When it comes to important corporate decisions, it is necessary to know about the expectations of different stakeholders and to determine, to what extend they could and would exert an influence.

Hence, the importance of stakeholder management is not limited on day-to-day business. On the contrary, it is primarily concerned with long-term strategic decisions. These are all those developments that affect at least particular stakeholders.

### Identification of Stakeholders

When identifying stakeholders it is not enough to focus on the formal structure of the organization. Rather it is necessary to have a look at informal and indirect relationships too. A useful model for this purpose is to visualize the stakeholder environment as a set of inner and outer circles. The inner circles stand for the most important stakeholders who have the highest influence.

[1] Mintzberg, H. 1999. „Who should control the operation? In: Mintzberg, H., Quinn, J.B. & Ghoshal, S. „The Strategy Process“. Harlow: Pearson Education Ltd.


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This exhibit serves to give a general overview on possible stakeholders and their impact. In general, the formation of stakeholder groups depends on the individual situation of each corporation. Although stakeholder analysis is sometimes used as a tool for industry analysis, its true value lies in the evaluation of particular problems for businesses and organizations. In this sense, it is also a tool for evaluating strategies. The reason is that individuals and groups may behave differently in different situations. For instance, environmental interest groups will have a low interest in staffing decisions; they could, however, have an extremely high impact when it comes to locational decisions.

**Identifying the impact of stakeholders**

In a stakeholder analysis, impact or power of a stakeholder is defined as the extent to which they are able to persuade, induce, or coerce others into following certain courses of action. There are several ways to exert such power, for instance by direct authority, lobbying or exerting a dominant market position. The power of stakeholders can base on various **sources**:

| **Internal Stakeholders** | **External Stakeholders** |
|---|---|
| • Hierarchy (formal power)<br>e.g. authority, senior position<br>• Influence (informal power)<br>e.g. leadership style<br>• Control of strategic resources<br>e.g. responsibility for strategic products<br>• Possession of knowledge and skills<br>e.g. expert knowledge that forms the organizations core competence<br>• Control of the environment<br>e.g. network of relationships to external stakeholders<br>• Involvement in strategy implementation<br>e.g. as a change agent or responsibility for strategic projects | • Control of strategic resources<br>e.g. monopolistic supplier<br>• Involvement in strategy implementation<br>e.g. strategic partners in distribution channels<br>• Possession of knowledge and skills<br>e.g. cooperation partners, subcontractors<br>• Through internal links<br>e.g. networking |

The power of stakeholders can grow from different sources. Therefore, it might be helpful to look out for visible signs of power. These can be some of the following **indicators**:

| **Internal Stakeholders** | **External Stakeholders** |
|---|---|

| | |
|---|---|
| Status<br>e.g. position in hierarchy, salary level, bonuses | Status<br>e.g. speed of corporate reaction on requests |
| Resources<br>e.g. budget, number of staff in department – especially in relation to other departments or the total volume of resources | Resource dependence<br>e.g. percentage of equity stakes, credit volume, buying or purchasing volume, mutual organizational linkages → switching costs for the corporation |
| Representation in powerful organizations / bodies, e.g. membership in important project teams and commissions | Negotiating arrangements<br>e.g. fixed standard prices vs. individual price negotiations |
| Status symbols<br>e.g. own secretary, company car, position and equipment of office | Status symbols<br>e.g. invitations to business events, direct access to top management |

No single indicator is likely to uncover the power and position of a particular stakeholder within in relation to the company. The combined evaluation of all sources and indicators of power, however, will improve general understanding of stakeholders.

**Analysis of Interest and Power**

Besides the analysis of stakeholder power in terms of their ability to influence people and developments, it is also necessary to evaluate, to which extent the stakeholders will exert their power. Local authorities, for instance, can have a high impact on an organization. If the corporation plans to move their headquarter, local authorities would probably try to influence this decision. However, they will only be interested to know about other important business developments, e.g. introduction of new product lines or new marketing campaign, without taking any action.

The power/interest matrix is a useful tool for evaluation the expectations and the impact of particular stakeholders. It analyses the following questions:

- How **interested** is each stakeholder group to impress its expectations on the organization's decisions?
- Do they have the means to do so? → Do they have the power to do so?

In the result, the power/interest matrix provides valuable information on how to handle particular stakeholders and groups. It can also indicate, if certain decisions will receive support or resistance, and which groups have to become included in the decision process.


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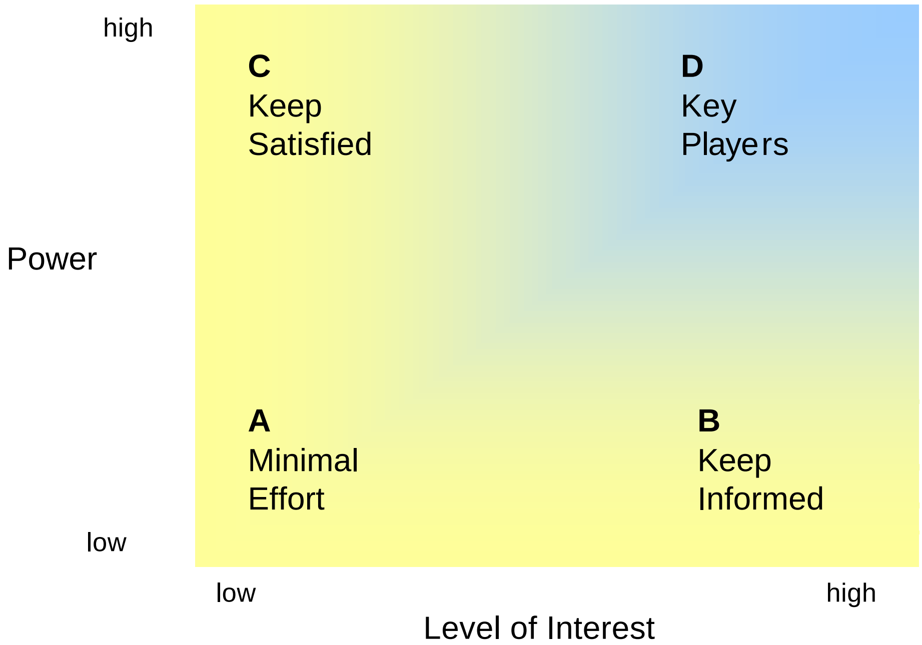


Stakeholders in **sector A** neither do not have a high own interest in corporate plans nor do they have to power to exert much impact. Organizations should keep these groups informed in the necessary extent, but should not invest too much effort into them.
Stakeholders in **Sector B** do have a high interest in the corporation and its actions. However, they have limited means to influence things. Despite their low power, such stakeholders could be valuable allies in important decisions. Therefore, Ii is advisable to keep them informed about the issues they are interested in.
The relationship with stakeholders in **sector C** could be difficult. In this group, we often find institutional investors or legislative bodies. They behave passively most of the time and show a low interest in corporate affairs. Despite that they can exert an enormous impact on the organization, e.g. when it comes to investments. It is therefore necessary to analyze potential intentions and reactions of these groups in all major developments, and to involve them according to their interests.
The most important stakeholders are those with high interests and high power, to be found in **sector D**. They have to be involved in all relevant developments.

All identified stakeholders should be grouped in this matrix. This can reveal the following insights:

- Recommendations for relationships to particular stakeholders
- Identification of supporters and opponents of a project.
- Necessary repositioning of stakeholders. (e.g. reduction of power of a major opponent – from D to B; increase of interest of a powerful supporter – from c to D)
- Measures to keep stakeholders in favorable positions. (e.g. fulfillment of information needs in sector C)

To support such tactics, organizations can compare the actual stakeholder map with a more favorable one. This allows revealing deviations. It is the basis to find ways on how to reposition particular stakeholders. For instance, it is possible to influence the opinion of an important customer by involving him in early planning stages in order to find a solution that meets the needs of both parties. The power

of a supportive department could be increased by inviting representatives from this department into project teams and planning committees.
Moreover, this type of analysis can provide insights, if it is necessary to sub-divide larger stakeholder groups into more smaller groups. These sub-groups could be treated differently in order to meet their individual needs and to get their support. Such a strategy allows to form new alliances and to shift power.

Nevertheless, every influencing of stakeholders should be done within ethical and legal limits.

**Literature Recommendation:**

Johnson, G., Scholes, K. 1999. Exploring Corporate Strategy. Hemel Hempstead: Prentice Hall Europe


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