THE STAKEHOLDER APPROACH TO BUSINESS

UNIT 2

CONTENTS

1. THE STAKEHOLDER CONCEPT

"Persons or groups that have, o claim, ownership, rights or interests in a corporation and its activities"

Clarkson, 1995

"Any group or individual who can affect or is affected by the achievement of the organization's objectives"

Freeman, 1984

"Those groups without whose support the organization would cease to exists"

Institute Research Standford, 1963

GOALS

MANAGEMENT MODELS

TYPE OF STAKE	Definition	Examples
An interest	When a person o group will be affected by a decision, it has an interest in that decision.	“The TV commercial demeans women and I am a woman”.
A right	(1) When a person or group has a legal claim to be treated in a certain way or to have a particular right protected. (2) When a person o group thinks it has a moral or ethical right to be treated in a certain way	Employees, customers and suppliers have certain legal rights. Fairness, justice, equity.
Ownership	When a person or a group has a legal tittle to an asset or a property	“I own1000 shares of this corporation”.

The organization goals

MISSION

- Generic goal

OBJECTIVES

- Concrete expression of the goal

AIMS

- Short term goals

Types of objectives

CORPORATE

- Whole organization

TACTIC

- Business unit level

OPERATIONAL

- Department level

Management Models

STAKEHOLDER

- Stakeholder wealth maximization

MANAGERIAL

- Separation of ownership from control

TRADITIONAL

- Profit maximization

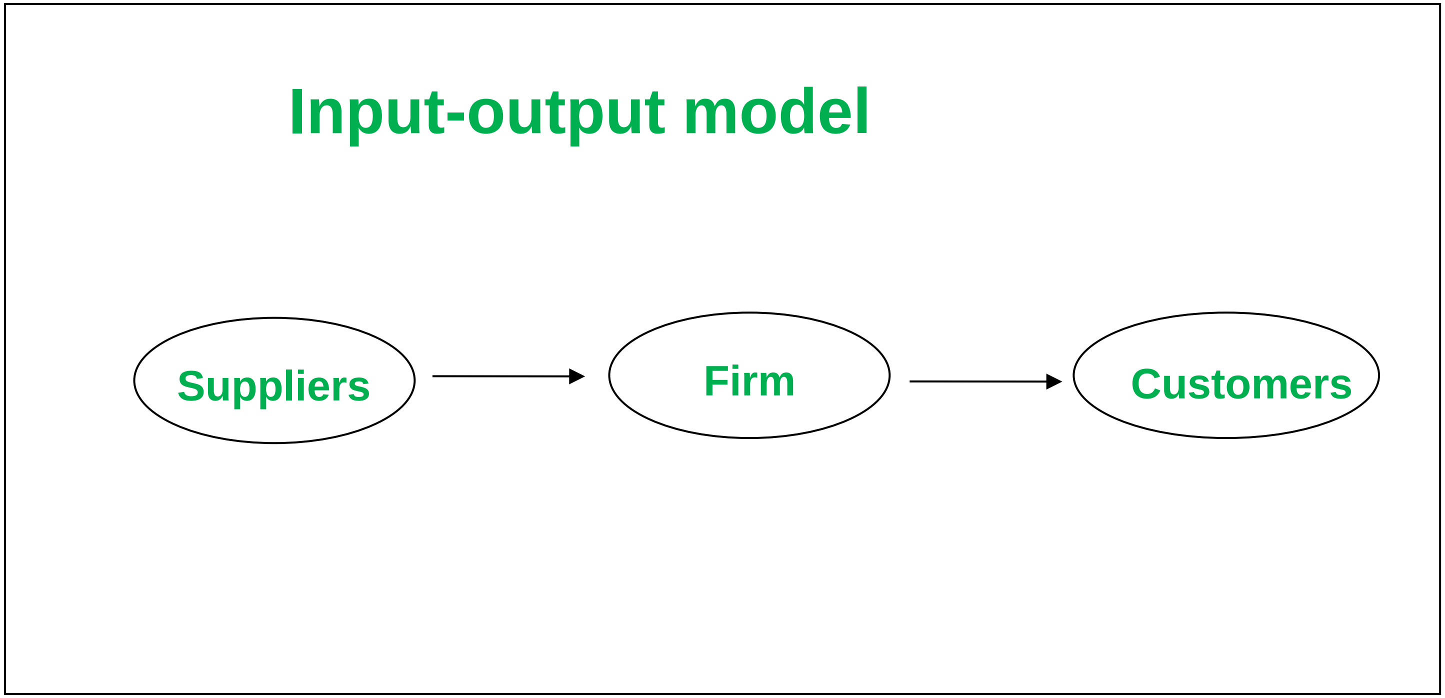
Traditional model

The firm’s objective is the entrepreneur’s objective→ profit maximization

LIMITATIONS:

- ✓ To measure the term “profit”
- ✓ It doesn’t take into account the associated risks
- ✓ Ambiguity in the term “maximization”

Traditional model



Source: Based on Donaldson & Preston (1995)

Managerial model

Agency theory suggests that the firm can be viewed as a nexus of contracts (loosely defined) between resource holders. An agency relationship arises whenever one or more individuals, called principals, hire one or more other individuals, called agents, to perform some service and then delegate decision-making authority to the agents.

Agency relationship

Principal --------→ Agent

Shareholder ------------→ Manager

Conflict of interest

Agency Theory

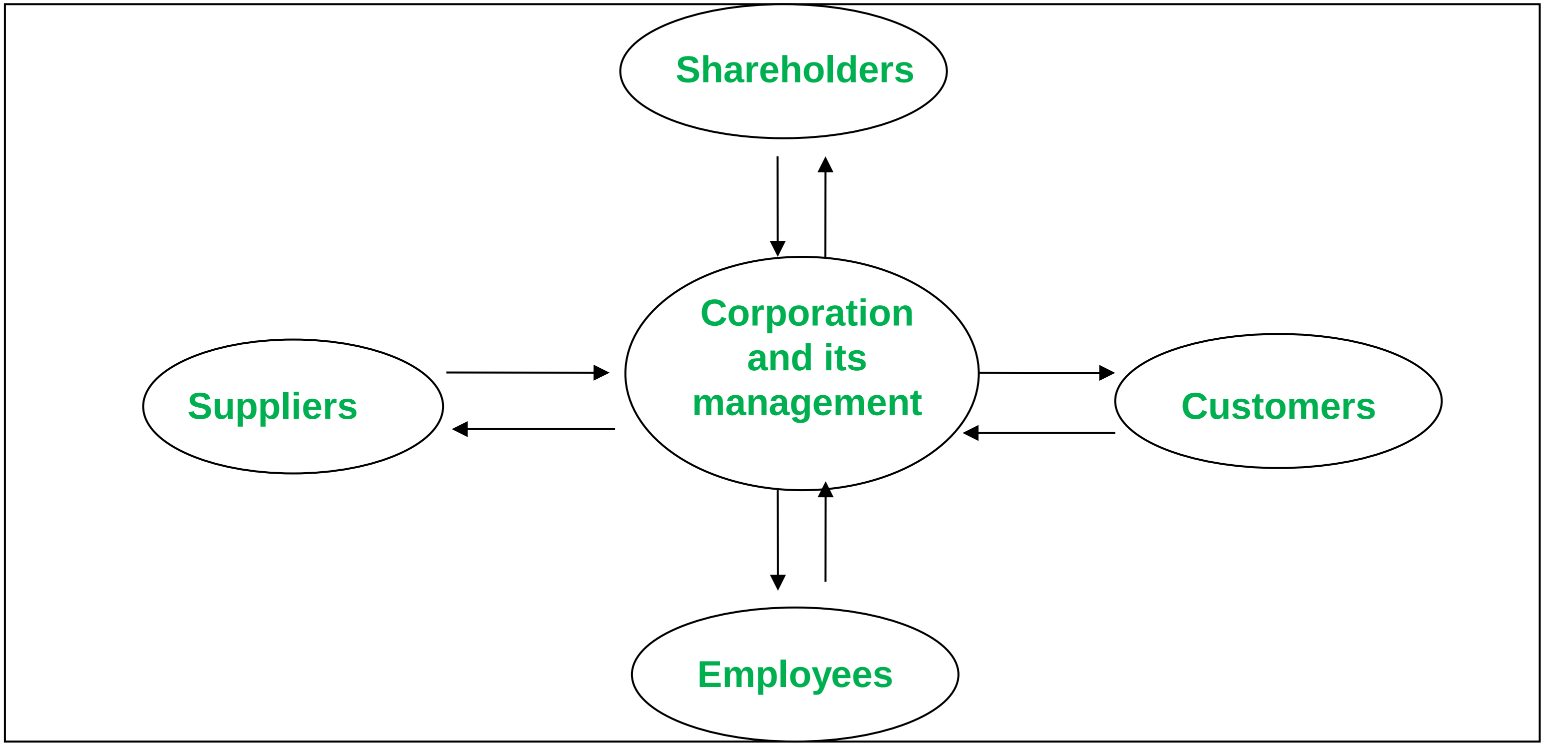
- ¿What does the managers look for?:
  - ✓ Increase firm size
  - ✓ High emoluments
  - ✓ Raise expenses charged to the company
  - ✓ Other discretionary behaviour

- ¿What can the shareholders do?:
  - ✓ Designate and dismiss director
  - ✓ Demand information
  - ✓ Check information-> auditory

BUT-> shareholders can not check all information
-> ownership is sometimes atomized

Incentives
Market competence

Managerial model



Source: Based on Donaldson & Preston (1995)

Stakeholder's model

The capacity of a firm to create sustainable wealth in the long term is determined by its relationships with the stakeholders

The firm is defined as an socio-economic organization created to generate wealth for the different stakeholders

Stakeholder’s model

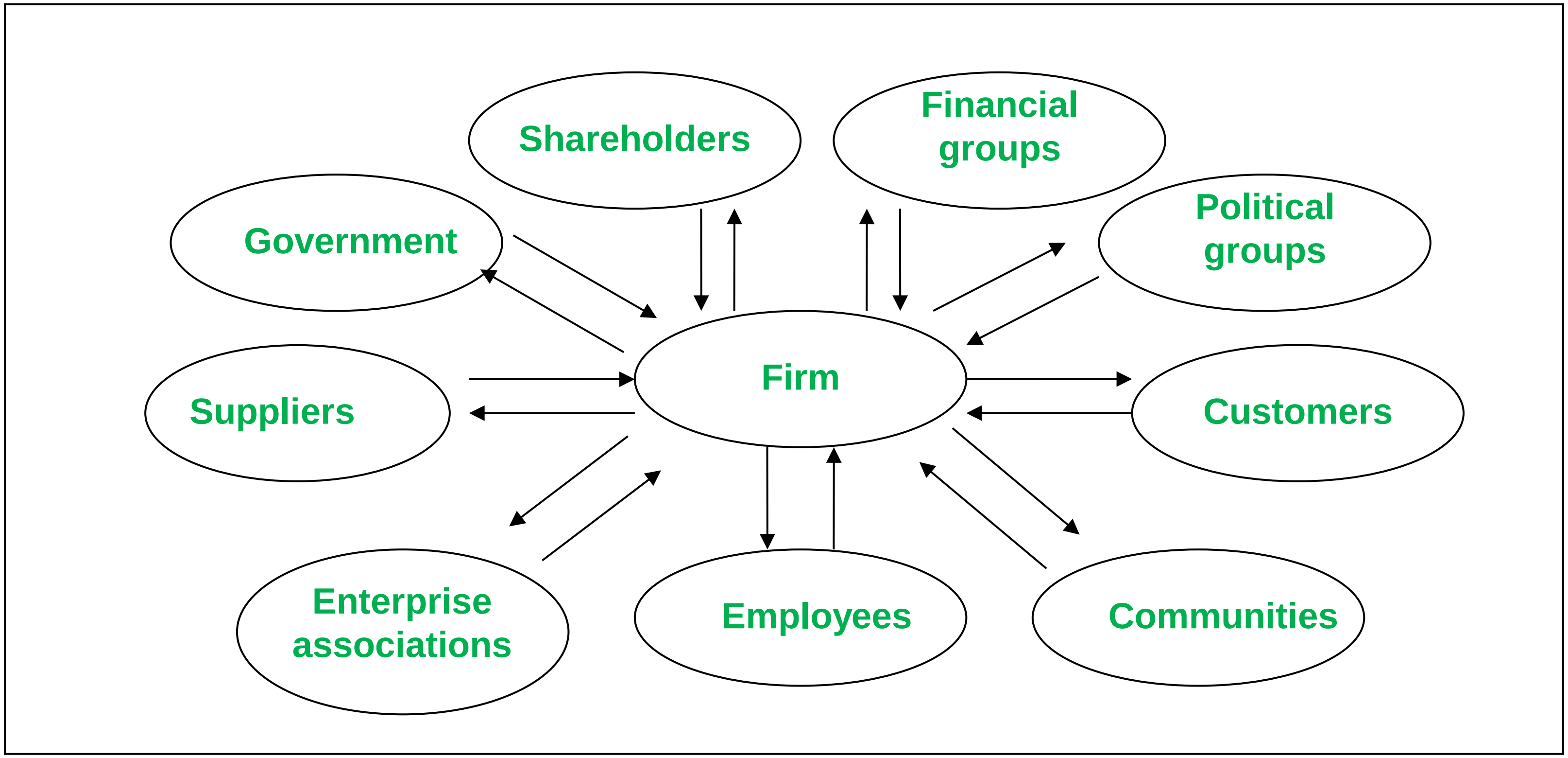
The firm is part of a system formed of multiple stakeholders

The benefits between the firm and stakeholders are mutual

Directors should satisfy stakeholders’ interests

It is also called “Social control Model”

Stakeholder’s model



Source: Based on Donaldson & Preston (1995)

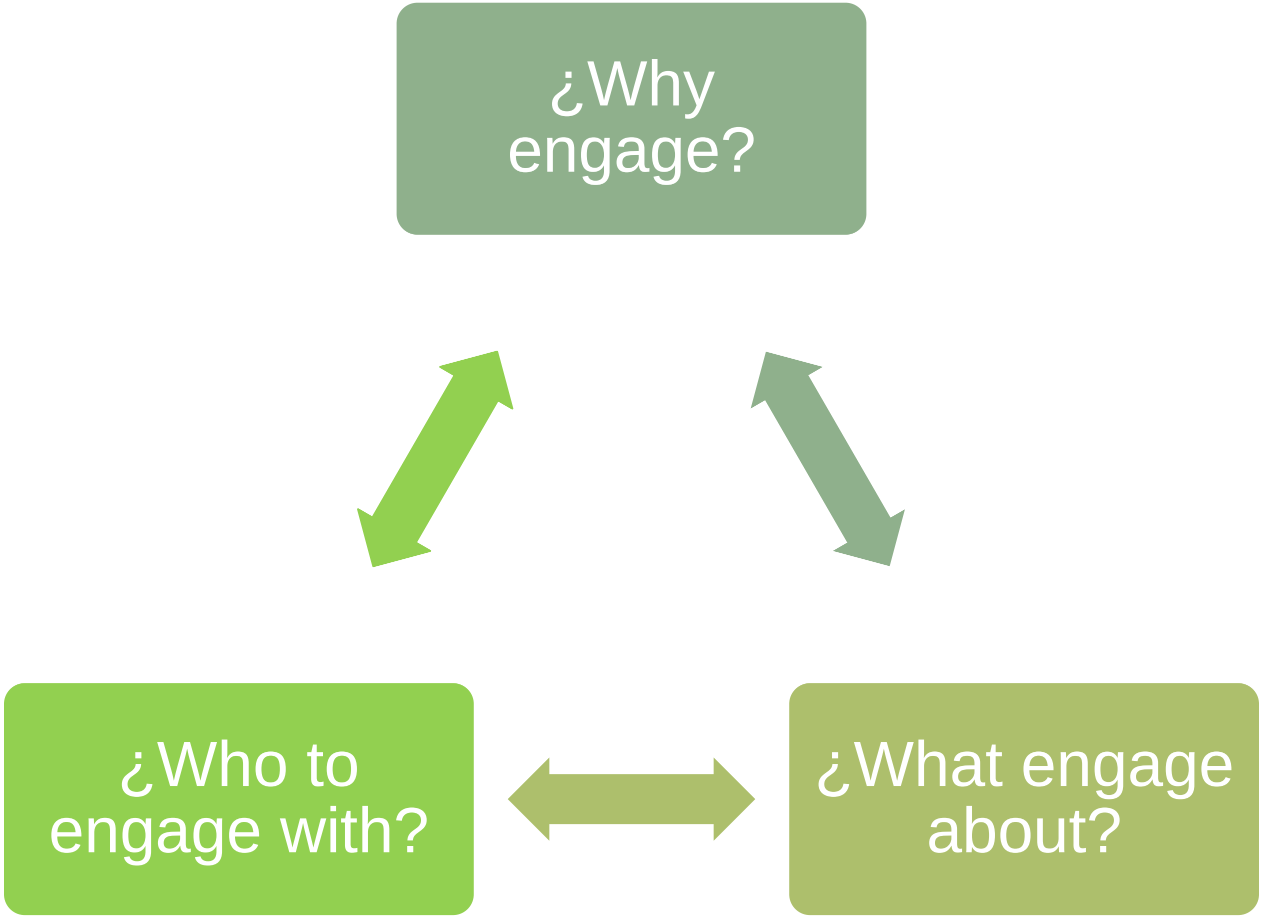
2. STAKEHOLDERS' IDENTIFICATION AND SEGMENTATION

IDENTIFYING

SEGMENTING

PRIORITIZING

Stakeholders' identification



Examples

BRANDED SPORTSWEAR COMPANY

Why?

- To protect our reputation

What?

- Labour standards in the supply chain

Who?

- With NGOs and other groups that permit to work in a constructive way

CEMENT MANUFACTURER

What?

- ¿Where do we site a new factory?

¿Who?

- Local groups and individuals

Why?

- Identify different sites and reduce risks of blocking

Source: Based on Accountability, 2006

Stakeholders' segmentation

According to attributes

- Latent
- Expectant
- Definitive

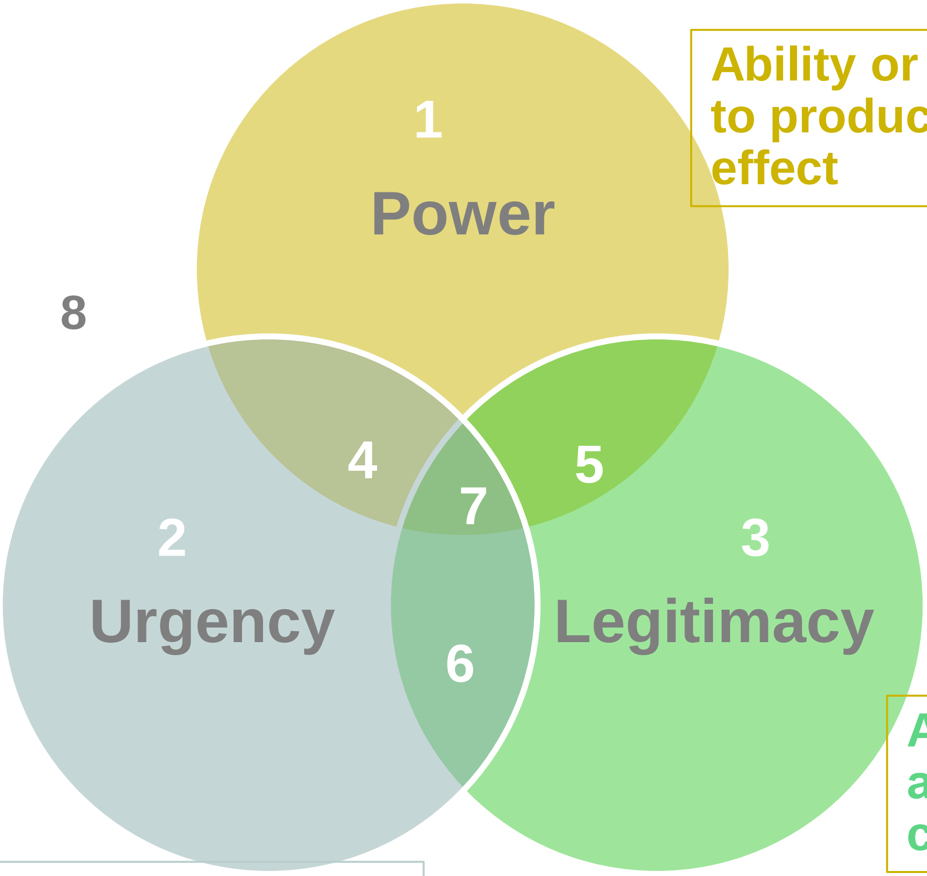
According to proximity

- Internal
- External

According to the stake's relation

- Primary
- Secondary

According to Stakeholders' attributes



Ability or capacity to produce an effect

TYPES OF STAKEHOLDERS

- Latent: 1,2,3
- Expectant: 4,5,6
- Definitive: 7
- Non-stakeholders. 8

Appropriateness of a stakeholder's claim to a stake

Degree to which the stakeholder claim call for immediate response

Source: Based on Mitchell, Agle and Wood,1997

According to proximity

External

- Customers
- Suppliers
- Community
- Government

Internal

- Employees
- Directors
- Shareholders

According to the stake's relation

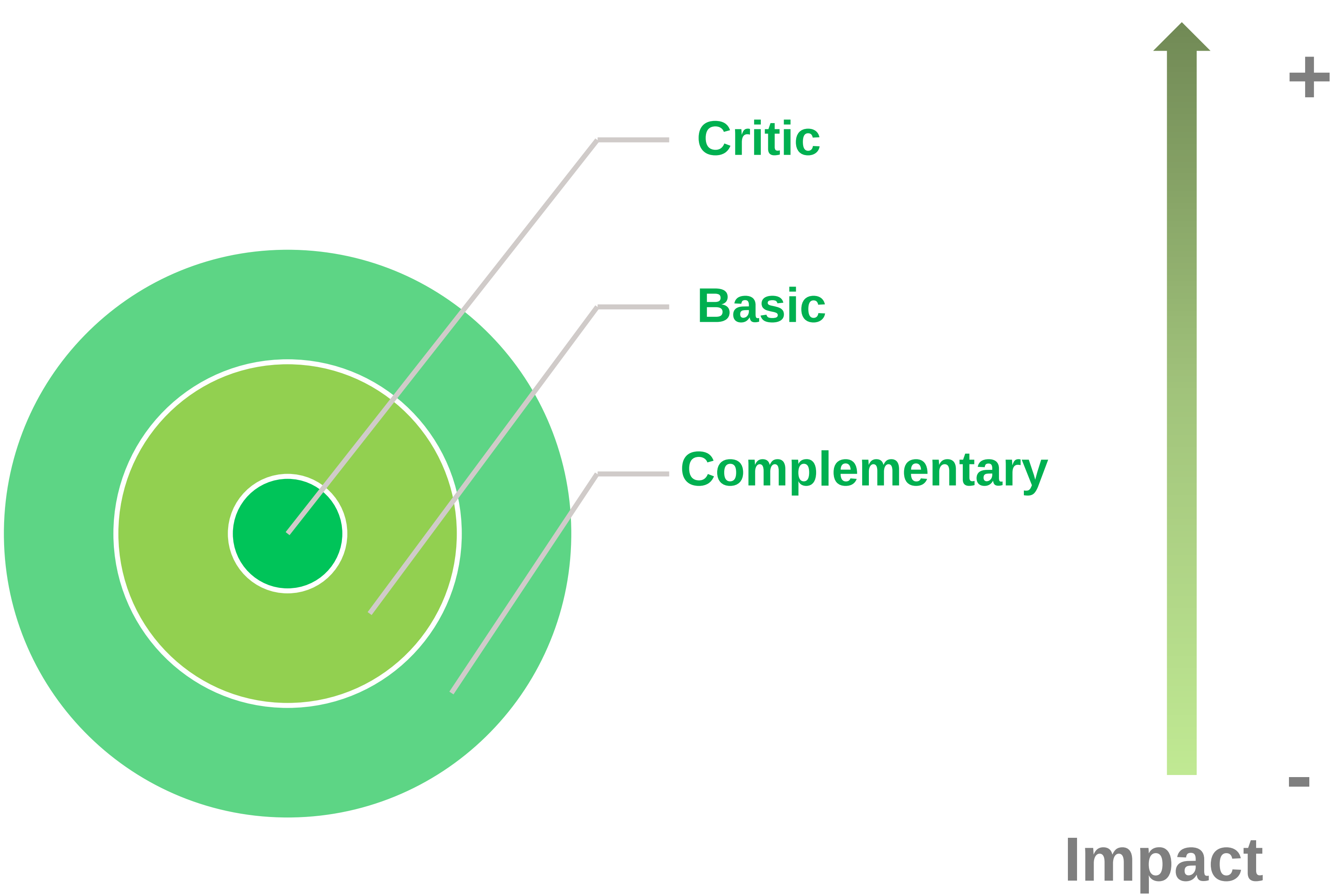
Secondary

- Competitors
- Media and opinion leaders
- Government and regulators
- Trade Unions
- Social pressure groups

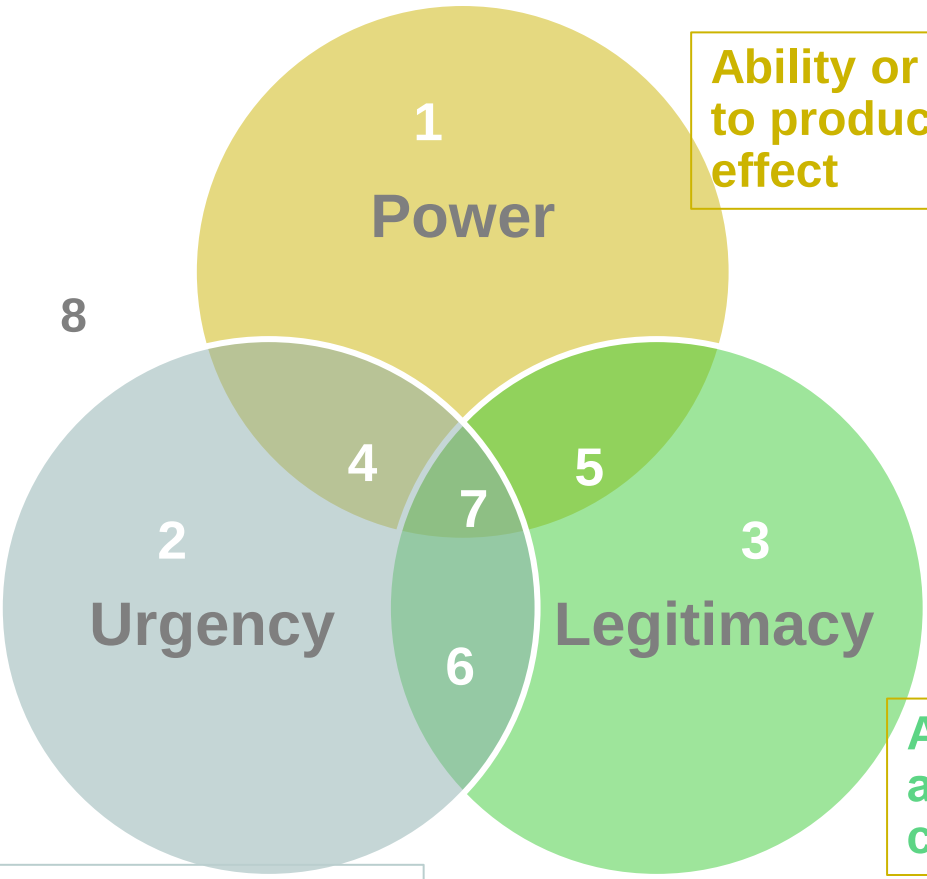
Primary

- Employees
- Directors
- Shareholders
- Local communities
- Customers
- Suppliers

Prioritizing stakeholders



Model of stakeholder priority



Ability or capacity to produce an effect

Appropriateness of a stakeholder's claim to a stake

Degree to which the stakeholder claim call for immediate response

TYPES OF STAKEHOLDERS

- Irrelevant: 8
- Low priority: 1,2,3
- Moderate priority: 4,5,6
- High priority: 7

Source: Based on Mitchell, Agle and Wood (1997) and Page (2002)

Stakeholder map by a pharmaceutical company

Stakeholder category	Sub-groups
Employees	Board and executive team Management Staff Trade unions New recruits Potential recruits Employees who have left the company
Investors	Institutional investors Pension funds Fund managers and analysts Rating agencies Socially responsible investment movement
Customers	National Health Service Trusts Doctors Patients Private clinics Hospitals Pharmacists Wholesalers Prescription influences (e.g. nurses, social workers, teachers, psychologist) Internal clients

Stakeholder category	Sub-groups
Suppliers	Suppliers of materials and ingredients Contract manufacturers Doctors (as R&D consultants) Clinical trial centres Volunteers and patients in trials Service providers and infrastructure products
Competitors	Pharmaceutical companies Biotech companies
Government and Regulators	Department of Health Pharmaceutical regulatory authorities Food and Drug Administration (US) World Health Organization (UN)
Partners	Licensees R&D partners Other pharmaceutical companies Clinics/universities

Stakeholder category	Sub-groups
Local communities	Neighbours Local authorities/ Planning Department Charities and voluntary organisations Environmental groups
Academia and Scientific Community	University centres Researchers Students
Media	TV and Radio Medical/scientific publications National/local newspapers Financial newspapers
NGOs and Pressure Groups	Patient organisations Human rights organisations Animal welfare organisations Environmental organisations Alternative medicine associations

Source: Accountability, 2006

3. THE DIALOGUE WITH THE STAKEHOLDERS

NORMATIVE → **ETHICS**

- Meet the legitimate interests of stakeholders
- Policies that facilitates integration

INSTRUMENTAL → **LICENCE TO ACT**

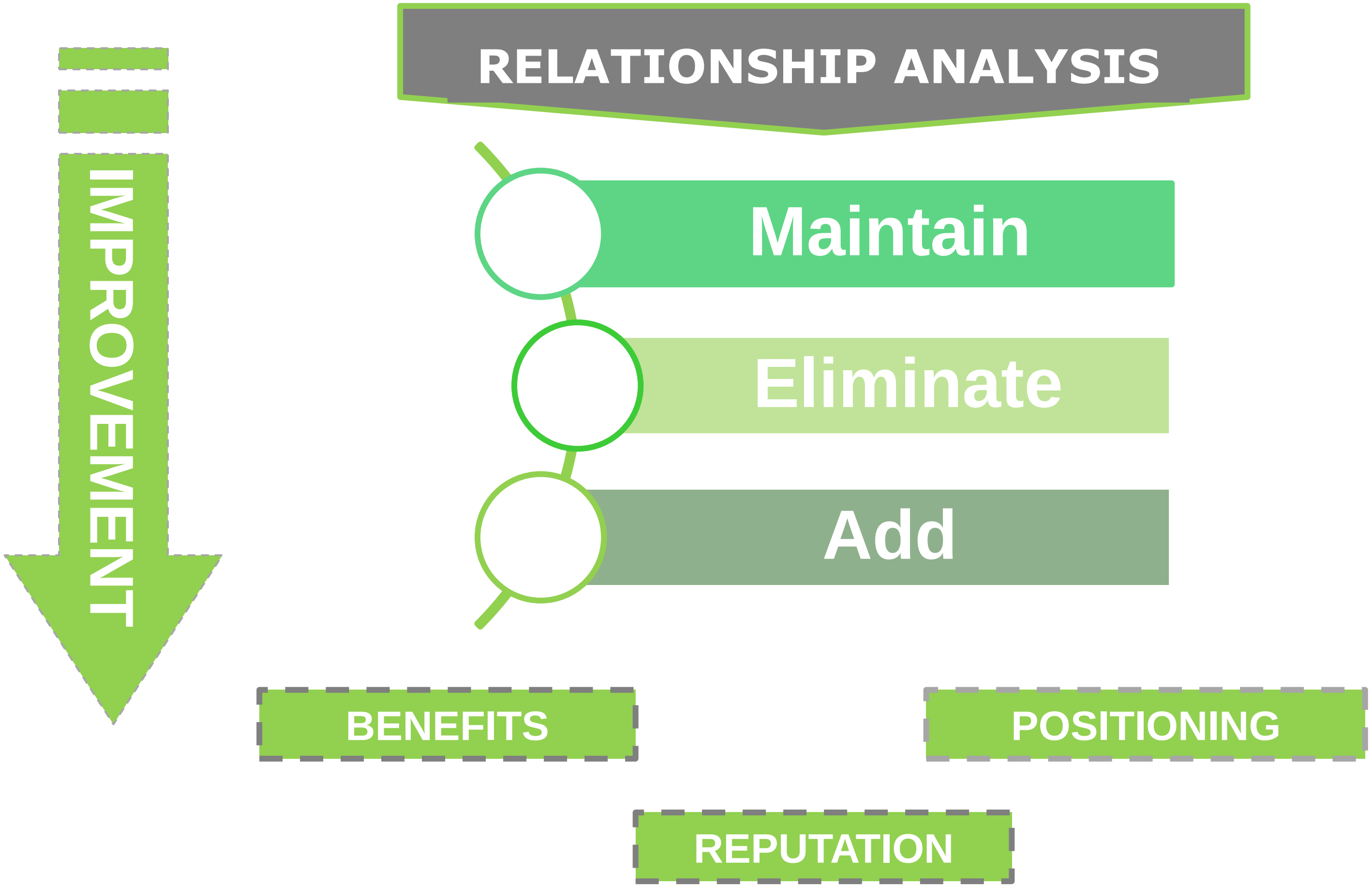
- The objective is to be successful in the market
- The unproductive relationships with stakeholders will be stopped

DIALOGUE

Stakeholders Views

Relationships with Stakeholders

The firm should analyse its relationships with stakeholders in the present and define what relationships is going to maintain in the future



The power of the stakeholders

		¿Is the stakeholder dependent on the firm?	
		NO	YES
¿Is the firm dependent on the stakeholder?	NO	**Low interdependence**	**Firm power**
	YES	**Stakeholder power**	**High interdependence**

Source: Frooman (1999)

Responses to stakeholders

		Stakeholder's potential for threat to organization	
		High	Low
Stakeholder's potential for cooperation with organization	High	*Mixed Blessing* Collaborate	*Supportive* Involve
	Low	*Non-supportive* Defend	*Marginal* Monitor

Source: Savage et al. (1991)

4. CORPORATE STAKEHOLDER ENGAGEMENT

3rd Generation

Integrated strategic engagement for sustainable competitiveness

2nd Generation

Systematic engagement for risk management and increased understanding of stakeholders

1st Generation

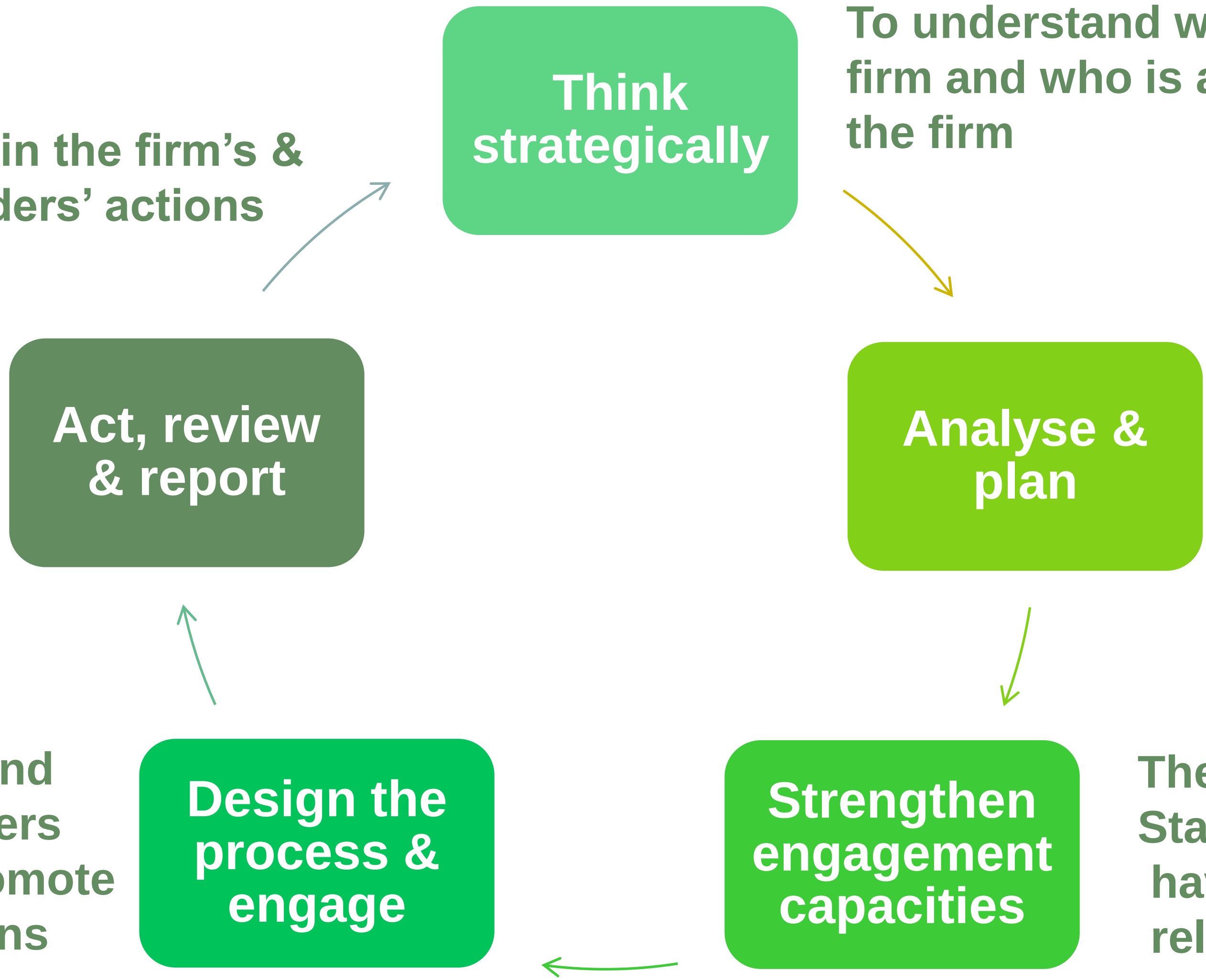
Pressure driven engagement for pain alleviation with localised benefi ts

Source: Based on Accountability, 2006

Five stage stakeholder management framework

To understand who affects the firm and who is affected by the firm

Changes in the firm’s & Stakeholders’ actions



Internal commitment

The firm and Stakeholders can have effective relationships

The firm and stakeholders star to promote joint actions

Source: Accountability, 2006

Principles of stakeholder management framework

Materiality — Knowing what is important to you and stakeholders

Completeness — Understanding your impact & what people think of you

Responsiveness — Demonstrating adequate response

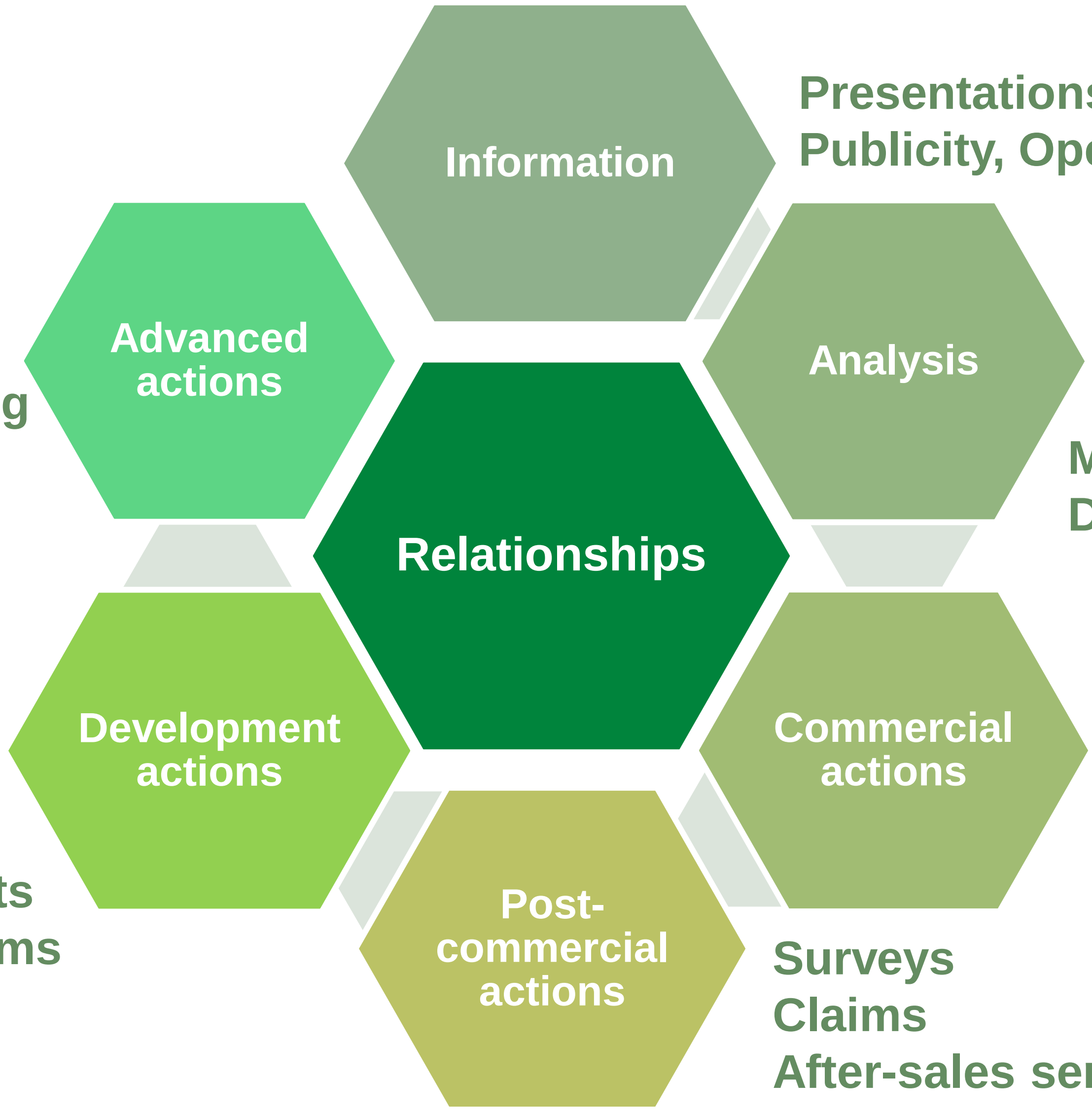
Source: Based on Accountability, 2006

The principles in the five stage stakeholder management framework

Stage / Principle	Think Strategically	Analyse & Plan	Strengthen Capacities	Engage with Stakeholders	Act and Review
Materiality					
Completeness					
Responsiveness					

Source: Accountability, 2006

Types of relationships with stakeholders



Presentations, Annual Reports, Publicity, Open Days

Alliance
Benchmarking

Market studies
Dialogue Platforms

Merchandising
Sales
Promotions

Joint projects
Working teams

Surveys
Claims
After-sales service

Source: Olcese et. al, 2008

The Benefits of Stakeholder Engagement

Effective and strategically aligned stakeholder engagement can:

– Lead to more equitable and sustainable social development by giving those who have a right to be heard the opportunity to be considered in decision-making processes;

– Enable better management of risk and reputation;

– Allow for the pooling of resources (knowledge, people, money and technology) to solve problems and reach objectives that cannot be reached by single organizations;

– Enable understanding of the complex business environment, including market developments and identification of new strategic opportunities;

The Benefits of Stakeholder Engagement

- Enable corporations to learn from stakeholders, resulting in product and process improvements;

– Inform, educate and influence stakeholders and the business environment to improve their decision-making and actions that impact on the company and on society;

– Build trust between a company and its stakeholders

Source: Based on Accountability, 2006

Discussion questions

1. Compare the moral arguments for the stakeholder theory with those for the stockholder theory. On what grounds could you choose between them?
2. Consider the broad categories of suppliers, customers and society. Develop a set of subcategories that could be clearly distinguished by different power and legitimacy.
3. Is the stakeholder corporation a realistic model for business firms nowadays? Which approach – normative or instrumental- will become more prevalent in the 21st century? Why or why not?
4. Think in a firm and give examples of each of the stages of the stakeholder management model.
5. Find some relation between the principles and the benefits of the Stakeholder Engagement .

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- BUCHHOLTZ, A. K. ; CARROLL, A. B. (2012): *Business and Society. Ethics and Stakeholder Management*. South Western (International Edition)
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- ACCOUNTABILITY (2006): "The Stakeholder Engagement Manual", http://www.accountability.org/about-us/publications/the-stakeholder.html