

## CHAPTER 2

### Strategic Management of Stakeholder Relationships

## Objectives

- What are stakeholders?
- Types of stakeholders
- Stakeholder attributes

## Stakeholders

- “Any individual or group who can affect or is affected by the actions, decisions, policies, practices, and goals of the organization”
- Need to understand specific stakeholders and their claims and relationships with organization

## Primary stakeholders

- Groups that are fundamental to the company's profitability and survival
- Relationships with this group is essential to the long-term health and success of the company
- Examples: Owners, customers, employees, suppliers, stockholders and board of directors

## Secondary stakeholders

- Critical secondary stakeholders – those groups that a company are dependent on for success
- Example: Communities where companies are located etc.
- Particular secondary stakeholders – relationships with groups that arise because of specialized interests, the business etc
- Ex: Media, consumers, lobbyists, courts, governments, competitors, public, and society

## Ex. of Stakeholder issues

- Employees
  - Compensation and benefits, training and development, diversity etc
- Customers
  - Product safety and quality, customer service, disabled customers
- Investors
  - Transparency of shareholder communications
  - Shareholder rights

## Shareholder issues

- Suppliers
  - Encouraging minority suppliers, encouraging developing country suppliers
- Community
  - Public health and safety, conservation of energy and materials
- Environmental groups
  - Minimizing use of energy, minimizing wastes etc

## Most important stakeholders?

	Supervisory Managers	Middle	Executive Managers
Customers	5.57	6.10	6.40
Myself	6.28	6.29	6.28
Subordinates	6.06	6.30	6.14
Employees	5.93	6.11	6.01
Owners	4.07	4.51	5.30
Public	4.38	4.49	4.52
Stockholders	3.35	3.79	4.51
Public Officials	3.81	3.54	3.79

## Stakeholder Attributes: What Matters?

- Stakeholder power – extent to which a stakeholder can exercise power over a company
  - Coercive power – use of force or restraint
  - Utilitarian power – use of financial or material control
  - Symbolic power – use of symbols or prestige

## Other Critical Attributes

- Legitimacy – are stakeholders' claims justified or legitimate?
- Urgency – how fast need the company react to the stakeholders' needs?

## Group Tasks

- You are an investor interested in starting a casino in the outskirts of Madison. You need to ensure that the casino won't be met with resistance.
- Identify all stakeholders involved in this decision.
  - What do you expect from each stakeholder group?
- What can you do to ensure that the stakeholders warm up to your investment project?

## Group Task

- You are a juice manufacturer. You just learned that a few customers have become sick from drinking your product. You suspect that the juice was not properly pasteurized. You need to ensure minimal damage to your reputation.
- Identify stakeholders affected by this incidence.
- What can you do to minimize damage?

## Stakeholder Analysis

- What can you do if you have just been involved in a major controversy?
  - Step 1 – Map stakeholder relationships
  - Step 2 – Map stakeholder coalitions
  - Step 3 – Assess nature of each stakeholder's interest
  - Step 4 – Assess the nature of each stakeholder's power
  - Step 5 – Construct a matrix of stakeholder responsibilities
  - Step 6 – Develop specific strategies and tactics
  - Step 7 – Monitor coalitions

## Step 1 – Map Stakeholder Relationships

- Who are our stakeholders currently?
- Who are our potential stakeholders?
- How does each stakeholder affect us?
- How do we affect each stakeholder?
- For each division and business, who are our stakeholder?
- What assumptions does our current strategy make about each stakeholder?

## Step 2 – Map Stakeholder Coalitions

- Determine and map any coalitions that may have been formed
- Coalitions among and between stakeholders form around issues and stakes that they have in common
- Ex: Exxon Valdez – Alaskan fishers, consumers, unemployed groups formed a coalition with political action committees

## Step 3 – Assess Stakeholder Interest

- Identify “supporters” and “non-supporters” of actions
- Look at their ACTIONS (what are they doing, what can trigger actions)
- BELIEFS (what do they believe in, assumptions, relative power)
- COOPERATIVE POTENTIAL (how can they be influenced)
- and STAKES (what is their stake in us)

## Step 4- Assess Stakeholder Power

- What's in it for each stakeholder?
- Who stands to win, lose or draw over certain stakes?
- Types of power
  - Voting, Political, and Economic
  - Coercive, symbolic and utilitarian
- Forces identification of allies' and opponents' strategies

## Stakeholder Prioritization



### Step 5 – Construct matrix of moral responsibilities

- How should we deal with each stakeholder?
- What types of responsibilities are each stakeholder due? (ex: Exxon Valdez)
  - Economic – to owners
  - Legal – to protect owners from personal liability
  - Ethical – responsibility to pay for clean up and making sure it does not happen again
  - Voluntary – public announcement of plan to resolve the crisis equitably

### Step 6 – Develop Specific Tactics and Strategies

- Approach stakeholder directly or indirectly?
- What needs to be done?
  - Nothing, Monitor, Defensive, or Offensive
- How to deal with specific stakeholders?
  - Accommodate, Negotiate, Manipulate, Resist, Avoid, or Wait and See
- Which combination of strategy?

### Some Cautions

- Strategies are too often short-sighted and are defensive/reactive
- Important to keep the following points in mind
  - Goal is to create at least win-win set of outcomes
  - Consider probable consequences of actions
  - Keep mission and responsibilities
  - How each stakeholder is approached can be as important as how they are dealt with

### Step 7 – Monitor coalitions

- See how things are changing
- Maybe create a chronology of events to see how events are unfolding

### Conclusion

- Companies need to be aware that responsibility is no longer solely to shareholders
- Catering to the varied needs of stakeholders can be financially rewarding
- Challenge is to balance