Stakeholder relations a way of viewing your alliances

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Stakeholder relations a way of viewing your alliances

Executive Summary

Using stakeholder relationships in order to understand alliances could possibly be one way of getting a new take on alliances and why they so often fail. During the LUSAX research a number of factors have emerged that can be said to influence alliances. Having dedicated functions to run and monitor the alliances, as well as having good relationships with partners that materializes into trust are two such functions. How then do you understand complex relationships, the different needs and wants that exist in them and how to you prioritize them? The key is to first understand who the stakeholders are and how they affect the company and its alliances. By understanding the starting point of the relationship there is a better chance of visualizing what an alliance can do and how it can affect the company.

Background

Stakeholder theory concerns the company's relationships and the management of these. The theory as such has evolved over the last 20 years and stems from the resource dependency theory. In short the theory describes different managerial behavior in order to reach different goals in response to stakeholders that affect, or are affected by, the decisions taken by the company. How management should handle the relationships is a question frequently debated within the theory. The theory is structured around three typologies, normative, instrumental and descriptive/empirical. (Jones & Wicks, 1999)

The normative approach suggests that managers should behave in a certain way. Managers should handle all stakeholders, and their interest, as they all have intrinsic worth. (Donaldson, 1999) The company has moral obligations towards its stakeholders; these obligations will impact both the ends a company is trying to reach and the different ways in which it is doing so. The normative approach has its foundation in ethics, which are currently back on the agenda with Corporate Social Responsibility (CSR) in the wake of a worldwide financial crisis. Ethics in themselves should not be seen as something shifting away the company's attentions from the marketplace. Any CSR, or purely ethical consideration, will have to match the business goals and targets of the company. The goals and targets should, together with the ethic codes, support each other. (Jones & Wicks, 1999) The ethical considerations do not have to be complicated moral codes, they could be laws in society, as an example property rights or CCTV Data protection acts can be mentioned. These restrictions limit and guide the company in its pursuit of its goals and targets.

The instrumental approach concludes that if managers act in a certain way it is more likely that certain outcomes will occur (Jones & Wicks, 1999), for example an increase in traditional business measurements like return on investments will have an impact on how you view relationships. Mangers should act in order to reach business goals and targets but have no moral hindrance on how to do so. The instrumental approach is used to identify the relations between traditional business goals and stakeholder management.

The descriptive / empirical approach is utilized to describe and explain specific company behavior and significant remarks. It concludes that managers actually handle stakeholders in certain ways. (Jones & Wicks, 1999) It could be the nature of the firm and manager evaluation amongst other things. (Donaldson & Preston, 1995) The bottom line is that we need to understand people as well as business in order to have any way of understanding stakeholders.

Identification of stakeholders

It is imperative for a company to know who its' interest groups are, and what it should focus on in order to keep the different groups happy or at least content. The same goes for alliances, since an alliance partner can and should be considered a stakeholder towards the company. Within this paper there will be no distinction made between a stakeholder and an alliance since the latter could be handled and analyzed just as a stakeholder. There are a lot of different views on whom a stakeholder is, Freeman (1984) proposes that "A stakeholder in an organization is any group or individual who can affect or is affected by the achievement of the organizations objectives". Clarkson (1994) claims that stakeholders only exist when they have something to loose - something is at risk. The discussion of who is really a stakeholder can be quite blurry, but there have been some tools developed in order to help companies cope with identifying and categorizing different stakeholders in order to evaluate the impact they can have on the company.

Stakeholder attributes

Mitchell, Agle & Wood (1997) propose three attributes that can be used to characterize stakeholders. They are **power**, **legitimacy** and **urgency**.

The first attribute is power. Power is variable and not constant. It can be changed over time; a part in power at the moment may not be the one holding power later on. The part with power in a relationship can influence or control the relationship itself by using coercive, utilitarian or normative means against the other part.

The second attribute is legitimacy, which exists in different types. Max Weber argued for three forms of legitimacy: Charismatic authority the often "supernatural" leader has charisma and this gives legitimacy. Traditional authority tradition of rule or customs, where one form of authority has been around for so long it has gained legitimacy. Rational/Legal authority principles, laws and procedures are written down as part of a constitution that governs governmental powers and thus lends legitimacy. Legitimacy and power are two separate things but they can be combined to form authority.

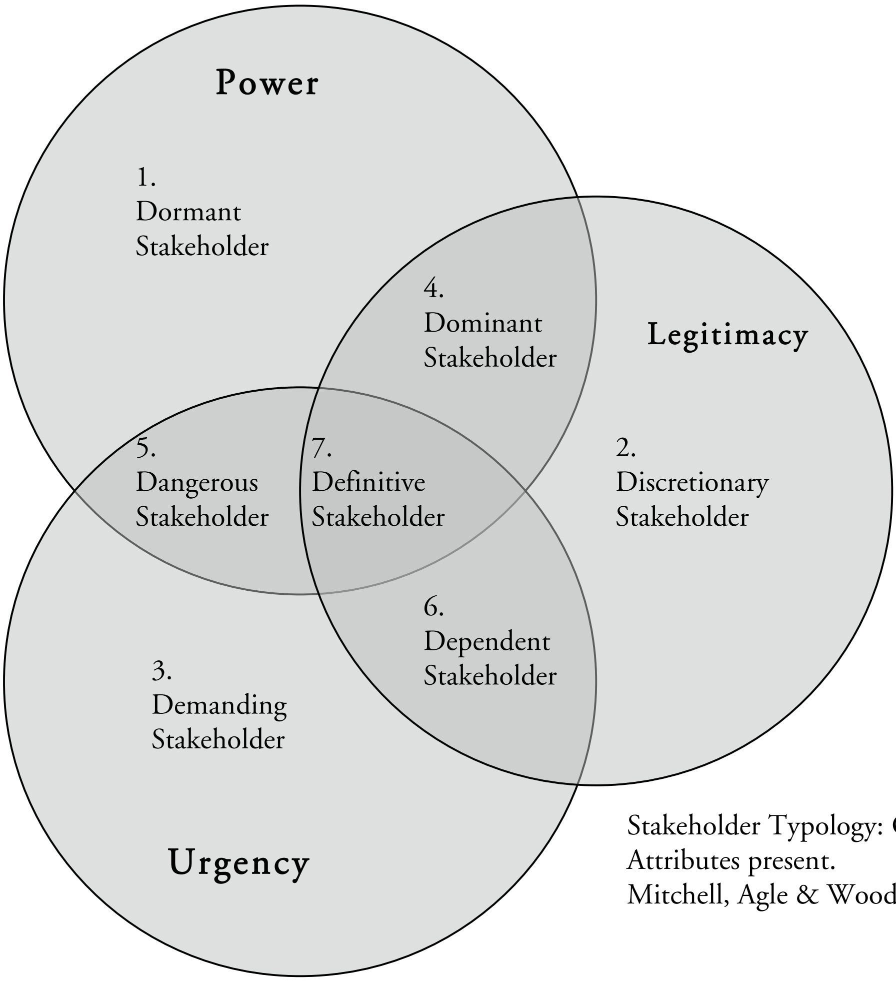
The third attribute is urgency. Adding this factor makes the model dynamic instead of remaining static. Urgency implies that the stakeholder claim calls for immediate attention, is under time pressure or of increased importance.

The three attributes discussed above are intended to ease the managing process. Mangers have to realize that these attributes are variable, socially constructed and not objective. Conscious actions from stakeholders can and cannot occur.

Stakeholder classes

The three attributes described above can be combined to form different classes of stakeholders. Fully implemented this gives eight different classes of which stakeholders can be a part of. This can be illustrated in a model, which will be discussed below.

As seen in the model below the three circles represent the attribute **power**, **legitimacy** and **urgency**. By looking to how the circles intertwine you get stakeholder who only have one attribute (latent stakeholders), have two attributes (expectant stakeholder) or the few that possess all three attributes (Definite stakeholders). The first two groups have a number of sub-categories that will be discussed.



Stakeholder Typology: One, Two or Three Attributes present.
Mitchell, Agle & Wood, 1997

Latent stakeholders

Dormant stakeholders hold power but does not have either legitimacy or urgency. The power remains unused. Managers should be aware of these stakeholders because if they take on one more attribute they will become more important. Examples of dormant stakeholders are laid off workers who could have hate towards their former employer and voice their opinions on radio or TV.

Discretionary stakeholders have legitimacy but lack the power to influence the firm and do not have any urgent claims. An example of discretionary stakeholders could be schools and nonprofit organizations that receive donations and voluntary labor. There is no pressure for management to engage in an active relationship with one of these stakeholders, although they can choose to do so.

Demanding stakeholders have urgency as their only attribute. Examples of demanding stakeholders could be a lonely protester outside the company's headquarters. This is irritating and annoying but the protester has little implications on the decisions taken by managers.

Expectant stakeholders

Dominant stakeholders have both power and legitimacy. Even if they have the power to act on their legitimacy it is not certain that they will do so. The possibility that dominant stakeholders can use their power is vital to managers. Dominant stakeholders often have some sort of formal acknowledgment that states their positions in relation to the company. They can be owners, investors, community leaders, a public affairs office or an investor relations office etc. Traditionally this group has been getting a lot of attention but managers have to realize that although this group is important it does not have all the attributes presented.

Dependent stakeholders have the attributes of legitimacy and urgency but lacks power to enforce their claims. They depend on the sanction of other stakeholders or management for the execution of power concerning the claims. Examples could be citizen that have suffered damage due to a company mistake and are taken under the protection of the government who gives power to their claims of settlement.

Dangerous stakeholders are important to pinpoint. Stakeholders that have power and urgency but lack legitimacy are to be perceived as dangerous. Examples of this could be terrorist-bombings and kidnappings in order to get attention to these claims. The examples do not have to be so dramatic they could also be employee sabotage or other "milder", but yet illegal actions. Managers have to see very early where threats could arise in order to minimize them. Categorizing the stakeholders and labeling some of them as dangerous is necessary but does not legitimize their actions in any way!

Definitive stakeholders

Definite stakeholders; the final circle, where all three circles intertwine contains the definitive stakeholders. These stakeholders have power, legitimacy and urgency i.e. all the three attributes. Managers must attend to these stakeholders immediately and give priority to the handling of their claims. Examples could be large shareholders that in event of decreasing stock value would like to be heard. If these are not taken care of by managers, definitive stakeholders could remove the management.
A stakeholder holding two attributes will be a definitive stakeholder if and when the third attribute is attained. Going by the models layout the salience of a particular stakeholder to the firm's management is low if only one attribute is present, moderate if two attributes are present, and high if all three attributes are present. Managers must not forget that stakeholders are not static. They change, disappear and evolve constantly. The management should try to monitor the environment surrounding the company to enable improved stakeholder management.

Relevance to the security industry

The security industry as such is currently embarking on what arguably can be described as disruptive change in the form of the convergence within the electronic security industry. This entails two or more very different business cultures meeting and trying to do business together in the best of cases, with hostile takeovers and bankrupts in the worst of cases. Companies are going out of business, changing ownership, as well as expanding and succeeding all in the same overall marketplace that has seen strong growth for more than 8 years. All in all it is a volatile marketplace at the present moment, and several knowledge gaps have been identified by the Lusax team as well as other industry experts. Where the knowledge gaps exist, strategic resources need to be handled with care and skill. Stakeholders of different forms are a definite resource or just as easily a potential drain on internal resources. Handling stakeholders as well as having a strategy for how to include, or exclude, them in bridging the different gaps is something that needs to be taken into account by management.

Operational leeway

Why should any manager have a care for all of this? If management does not "check" stakeholders they will have little or no operational leeway. In a resource dependency relationship the company and its stakeholders will struggle with each other to get what they want. It has to be done carefully since neither side can be allowed to be too disappointed in the exchange since that would result in a divorce of the relationship. There is interdependence between the two sides, i.e. both sides have to be kept happy even though one part might have the power in the relationship. The end result of any functioning stakeholder relation is that management tries to get as much as possible out of the relationship with stakeholders, without breaking it.

This means that management needs to acknowledge that there is some sort of dependence between the two parties, the company and the stakeholder. Walking the line of success and failure requires that a fine balance is kept, where stakeholders must be treated appropriately and in accordance with their importance to the company. If they are not treated properly management will see its ability to operate reduced. Those stakeholders with power will try to use it to their own advantage if they see benefits from it. This usage of power is well known from supply-chain management where you only deal with the interest groups in the actual chain. The same reasoning applies here though, were you cannot agitate your partners, or stakeholders, in the chain too much or they will leave the relationship.

What, then does management strive for? What is it that a manager within for instance an integrator company looks to achieve with stakeholders and alliances alike? Operational leeway is the key factor sought after, an ability to further the companies ability to move more freely within their respective marketplace. Management manages stakeholders in order to create operational leeway. The phenomena of managing stakeholders should be seen as a tool, used to achieve what is desired i.e. operational leeway.

For an integrator this could mean developing a new service with the help of stakeholders that give them an edge compared to others, which in tern generates above average returns compared to competitions and this in turn would then give operational leeway for management in response to investors and other stakeholders toward the company as such.

Endnote

Resource dependency strategies are a complicated matter. The seven main approaches suggested are usually used in combinations. The understanding of stakeholder influence strategies gives managers a better starting point when dealing with these issues. Knowledge about the stakeholder's possible behaviors gives managers increased control of the relationship and is helpful when choosing resource dependency strategies. It is important for managers to understand whom the stakeholders really are and to realize where to allocate effort and where to look for new and possibly important stakeholders.