Prerequisites of Stakeholder Management in an Organization

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The paper presents the organization as a collaboration of multiple and diverse constituencies and interests, referred to as stakeholders. Stakeholder approach in the organization integrates stakeholder relationships within a company’s resource base, industry setting, and sociopolitical arena into a single analytical framework. The key relationships for a business go far beyond the relationships with its customers and include the relationships with its employees, as well as those with suppliers and partners, investors and market analysts, and even government regulators, trade associations and other entities that influence the general business climate in which a given business operates. In all cases stakeholders are inseparable part of management strategy. This concept helps people and organizations to agree upon joint goals, participation, boundaries and benefit, i.e. flexibly to plan the activity.

Organizations generate intellectual, environmental, and social capital in addition to financial capital. In successful organizations, the three core elements of strategy, structure, and culture are aligned and respond to external forces and changing expectations. The relationships among core elements are dynamic and adaptive, both in relation to each other and in relation to the overall fit between the organization and its environment. A comprehensive orientation toward stakeholder management penetrates the core of the organization; in the redefined organization, all the three elements and their alignment reflects the underlying humanistic commitment to the organization’s stakeholders. A clear demonstration that management possesses and intends to implement a compelling vision of the enterprise – who we are, and what we stand for – provides the essential foundation for effective stakeholder management.

Organization-stakeholder relations lead to new ideas about the responsibilities of organizations, the role of managers, and the most appropriate management style. Seeing organizations and their relationship with stakeholders from a systems perspective helps us understand that organizations, as organic systems, undergo self-regulation and renewal through interactions with diverse parts of their environment. The more dynamic view of organization-stakeholder relations acknowledges the interdependence that exists between companies and their stakeholders and asserts that stakeholder relationships can be a source of opportunity and competitive advantage rather than simply threat or drain on organizational resources.

However, for most companies, the attention of management has been focused on one stakeholder group at a time. Collaborative approaches are often confined to specific parts of an organization. Rare is the company that adopts a comprehensive and strategic approach to relationship building that is governed both by deep social values and by recognition of the bottom line.

Keywords: stakeholder relationships, organization competitiveness, organization’s wealth, intangible assets, balanced scorecard.

Introduction

The competitive stakeholder analysis is a good method for identification of stakeholders, their prioritization and in that way influences the situation and gets the output that creates additional value (Bardach, 1998; Mills, 2002; Donaldson, Dunfee, 1999). It is not difficult to carry out stakeholder analysis; it does not take much time especially compared to the possible loss if not doing it (Lynn, 1996; Bardach, 1998). Stakeholder analysis is vital for bringing ideas that are worth implementing as well as for social policy development striving for organization’s welfare. (Van Horn, Baumer, Gormley, 2001; Bryson, Cunningham, Lokkesmoe, 2002).

Stakeholder analysis can be executed by identification of them and defining them according to the attributes, interaction and interests in relationship with the dealt issue. Before carrying out the analysis the organization must set the goal for doing it. There can be found numerous reasons for performing stakeholder analysis in academic literature:

- empirically to detect existing relationships between stakeholders (Grimble, Wellard, 1996);
- analytically to improve intervention (Engel 1997);
- as a management tool for policy establishment (Rolling, Wagemakers, 1998);
- to understand the key stakeholders and assess their interests (Grimble et al., 1995, Dyer, Syngh, 1999);
- to look for compatibility between the organization goals and interests of the stakeholders (Freeman, Gilbert, 1987; Jensen, 2000);
- as a tool for interests alignment and prevention of misunderstanding (Engel 1997).

Instead of stakeholder analysis Freeman and Gilbert (1987) use the concept of ‘stakeholder management’ emphasizing the importance of partnership relations, their management but not control. Stakeholder analysis/management is a tool for different world synthesis and assures that satisfaction of stakeholder interests and needs could be reconciled with business interest and consequently implemented (Boutelle, 2004; Foley, 2001; Susniene, Vanagas, 2007). Consistent exploration of various interests can reveal solutions for problem resolution and eliminate...
majority of the objections arising due to different interest and requirements.

Methodology of meeting stakeholder needs must be grounded on organizational management that should frame the premises for creating value to stakeholders and eventually meet their needs (Waddock, et.al., 2002; Harrison, Fiet, 1999). Satisfaction of stakeholder needs is a multidimensional process, therefore certain criteria must be identified and adapted to organization’s processes to ensure efficient organizational management in the context of satisfaction of stakeholders needs. These criteria will allow to collect and analyze data on the quality of organizational processes pertinent to the capacity of stakeholder value creation and to identify the need and ways for process improvement. Research problem: there is a lack of criteria that could cover the most important stakeholder management aspects and allow developing this complicated, multidimensional relationship network effectively harmonizing and integrating stakeholder interests in unison with the implementation of organizational goals. Research goal: to create the tool that can frame the premises in organization management to perform stakeholders and their interests’ analysis, to clear out the aspects of value creation for stakeholders. Research objectives: to identify and arrange the criteria that will generate the premises for stakeholder needs satisfaction and adapt them and their comprising indicators to organization’s processes. Research methods: comparative analysis of academic literature, review of published researches, formulation of conclusions.

The identification of the criteria for meeting stakeholder satisfaction

The overall aim of internal organizational assessment is to detect the processes that can be improved. Indicators are used for group or individual activity analysis as well as for management analysis and control. Generally theses indicators are expressed in percentage or coefficients and they are the means for monitoring performance progress of goals, and objectives, for appraisal of organization management and processes. Whole process or only its part can be measured. At the top level it is necessary to concentrate on the key indicators and relate them with the requirements of the stakeholders. Especially important are those indicators that require considerable improvement. Usually there are not many of them but they can make great influence on the organization’s position in the market and on the value created for stakeholders. Organization’s goal can be economic (creating values for stockholders) or can involve more stakeholders. Value creation for stockholders concentrates on profitability ignoring responsibility for other stakeholders. In that case the organization is understood as instrument of owners. If the organization is interested not only in profit but in social responsibility, then the value is created for all stakeholders. Therefore we can say that an organization must take care of its all stakeholders and their groups (Leana, Rousseu, 1996; Scott, Vicki, 2000; Susniene, 2008).

At a lower process, level indicators can be used for monitoring separate processes, their management and improvement. Thus the organizations pursuing high results:

- know who are their stakeholders and what to do meeting stakeholder needs and what to improve in the organization;
- set strategies, goals and objectives that can assure the satisfaction of stakeholder needs;
- manage processes;
- assess and evaluates processes;
- improve processes according to stakeholder needs.

A lot of organizations are somewhere in the midst of transition from hierarchical structure to the “flatter”, more egalitarian (based on equality principle), organization. Management theories were influenced a lot by total quality management which emphasized team work and processes that are based on cooperation. Employee cross-functional teams were established to motivate their creativity and incentive, join the efforts in pursue of better results when improving processes as well as department work, analyze and deal with objectives, gather information, find solutions. In that way team members learn to solve problems, offer ideas and gain group work skills. All that determines efficient appraisal of internal business processes and their improvement.

A lot of companies adopted at least several principles that were described in Peter Senge’s book “The Fifth Discipline” (1994). The key elements of “learning organization” capacitates in nurturing collaboration. Systems thinking, personal mastery, mental models, building shared vision and team learning – the five disciplines advocated by the author – help to generate employee commitment, expand their chances of learning and be open in sharing the information but not criticize or judge.

Both total quality management and learning organization set the stage for collaboration beyond customers to external stakeholders. However, for many companies the internal realignment process is far from complete (Kumar, 1996; Benson et.al., 1998; Waddock, 2002). Some organizational structures and systems are in place to support collaboration, while others are missing. Similarly, while some individuals working within organizations have developed the skills and motivation to participate as productive members of teams, others haven’t (Svendsen, 1998; Beccera, Gupta, 1999; Prusak, Cohen, 2001).

Whether organization is capable to create value for its stakeholder depends on its possibilities to learn and grow in the long-range perspective. Therefore there are three main groups of assessment criteria:

- Managers’ and other employee’s potential.
- Information Technologies.

All the assessment criteria that involve financial and customer service indicators are directly linked to human capital of an organization - employees, i.e. their potential, competence, motivation and skills. Therefore concerning employee assessment, it is necessary to take into account the criteria as follows:

- employee qualification;
- employee acknowledgement, support;
- employee turnover;
- employee efficiency.
Assessment criteria of employee motivation are as follows:

- the number of offers received from employees and the number of implemented offers;
- differentiated pay/reward system;
- employee tangible motivation system and its compatibility with their work results.

Other important element of learning and development analysis is assessment criteria of information technologies:

- information dispersion indicator;
- information accessibility.

This research systematizes opinions in academic literature concerning the satisfaction of stakeholder needs and groups them into following criteria and respectively these ones into indicators that correspond certain criterion.

### Criteria of satisfaction of stakeholder needs according to attitudes in academic literature

<table>
<thead>
<tr>
<th>1. <strong>Senior management belief that relationship building with stakeholders is important to bottom-line success</strong></th>
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<tbody>
<tr>
<td>1. organization’s aspiration is to keep relationships with the stakeholders</td>
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<td>2. resources are allocated to stakeholder relationship-building activities</td>
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<td>3. the importance of stakeholder relationships and the need to meet their needs are well known in organization</td>
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<td>4. social concerns and responsibility are included in the organization mission</td>
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<td>5. top management take care of implementation of mission and goals</td>
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<td>6. progress of execution of cooperation with stakeholders goals is measured</td>
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<td>7. managers’ pay depend on the success of the relationship with the stakeholders</td>
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<td>8. organization has clear social goals that are reported on publicly</td>
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<td>9. organization cares for its reputation in society</td>
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<tr>
<th>2 <strong>Time spent by managers communicating about building relationships with stakeholders and shared information</strong></th>
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<tr>
<td>10. top management spend time in formal and informal conversations with staff emphasizing the importance of stakeholder relationships</td>
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<td>11. there are favorable conditions to share information in a company.</td>
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<tr>
<td>12. easy access to information in a company about taken decisions and carried policies</td>
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<tr>
<td>13. employees know how to share information with the stakeholders</td>
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<tr>
<th>3. <strong>Employee readiness to keep relationship with key stakeholders and responsibility</strong></th>
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<td>14. organization has priorities in stakeholder cooperation</td>
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<tr>
<td>15. organization includes cooperation with the stakeholders into the functions regulations.</td>
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<tr>
<td>16. organization gathers and analyses the information not only from customers but from other stakeholders too</td>
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<tr>
<td>17. employees know the organization’s mission and goals.</td>
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<td>18. employees are promoted to solve problems independently</td>
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<th>4. <strong>Organization’s culture support for personal values and needs</strong></th>
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<td>19. employees acknowledge and appreciate organization’s policy towards them</td>
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<td>20. turnover of employees is low in the organization</td>
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<td>21. open, not discriminating system of employee promotion</td>
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<td>22. transparency of pay and reward system.</td>
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<td>23. organization settles accounts with the suppliers in time.</td>
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<tr>
<td>24. ethics code is followed at organization</td>
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<tr>
<td>25. organization takes care of employees and their training</td>
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<td>26. organization shows trust in employees.</td>
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<tr>
<th>5. <strong>Organization’s orientation to satisfaction of stakeholder needs</strong></th>
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<td>27. not only financial results are import to organization</td>
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<tr>
<td>28. organization’s goal is to satisfy the needs of stakeholders.</td>
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<tr>
<td>29. organization knows the needs of the stakeholders and takes into account in its activities</td>
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<tr>
<td>30. organization aligns its interests with the stakeholder interest</td>
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6. Organization’s actions ensuring stakeholder satisfaction

31. organization has the rules for dispute solving
32. regular customers surveys are taken.
33. regular analysis of the customers’ complaints is carried out and accordingly corrections are made
34. organization meets with its partners and suppliers shares the information with them
35. organization holds the meetings with the employees, appreciates their opinion and promotes information sharing between them
36. organization permanently updates its range of services.
37. employees are motivated to keep relationships with the stakeholders.

7. Organizational systems set up or redesigned to support the mission

38. top management responsibility for stakeholder relationships is included into organization’s/departmental goals
39. employees’ responsibility for stakeholder relationships is included into departmental goals
40. employees are accountable for the action on social mission and cooperation with stakeholders through individual performance-appraisal processes
41. organization rewards employees and promotes initiative
42. reward and acknowledgement programs encourage the employees to pursue improvement in their work

8. Organization’s policies geared to long-term success

43. organization’s planning is flexible and corresponds stakeholder needs
44. organization’s policies are geared to long-term success

9. Care for environmental issues

45. organization abides environmental regulations

(source: D. Susniene, 2007)

The authors think that it would be meaningful to introduce additional criterion and its indicators that could help to identify general appraisal of organization’s focus on satisfaction of stakeholder needs from the point of view of employees and managers.

Table 2

10. General appraisal of organization’s focus on satisfaction of stakeholder needs

46. How would you evaluate organization’s readiness to ensure the understanding and meeting of stakeholder needs?
47. How would you evaluate existing relationships with the stakeholders in the organization?
48. How would you evaluate organization’s attitude toward the employees as well as understanding and meeting their needs?

The above mentioned forty five indicators were chosen according to existing attitudes in academic literature and accordingly these attitudes/indicators were grouped into ten criteria that were identified by the authors. These criteria and indicators can be adapted and applied to test organizations management and performance (Fig. 1). The monitoring of adapted criteria and indicators allows diagnosing and undertaking corrective actions in organizational operations and constitutes prerequisites for value creation to stakeholders in organization’s management.

Integration of the criteria and indicators in organization’s management system

Organization’s management in the context of meeting stakeholder needs can be analyzed twofold, i.e. according to the criteria and corresponding indicators (Table 1 and 2) and according to the phase in organization and corresponding indicators (Figure 1).

In Figure 1 we see the adaptation of the criteria and their indicators (that can assure the satisfaction of stakeholder needs) into organization’s management and its processes. The first number near the indicator corresponds to the number of the criterion in Table 1 and 2 and the second number near the indicator corresponds to the number of the indicator in Table 1 and 2 where they are arranged according to the identified criteria whereas here in Fig. 1 they are arranged according to the phase.

Such conceptual organization and its process in management is orientated towards stakeholder satisfaction and adapted to reveal practical aspects of stakeholder management and priorities in choosing organizational management structure that capacitates decision making, motivation of employees and use of their competence. After having used the criteria and their indicators in the survey of organization’s performance from the stakeholder management approach, it would be possible to judge about the existing situation and give suggestions for the improvement of organization’s performance.
PHASE

Organisation’s focus on satisfaction of stakeholder needs

Strategic planning

Process planning and execution

Process assessment and correction

Review of performance and strategies

Adjustment of the system after change of circumstances

System of continuous improvement

Incorporation of achieved results, identification of possibilities for improvement

Conclusions

It can be noted that in order to moderate premises for stakeholder satisfaction in organizational management, it is necessary to identify criteria and their indicators that can assure effective organization’s management and reveal practical aspects of organization’s operations. Therefore it is purposeful for organizations in the context of satisfaction of stakeholder needs to follow ten identified criteria and their indicators in the performance of their activity analysis:

1. Senior management belief that relationship building with stakeholders is important to bottom-line success (9 indicators).
2. Time spent by managers communicating about building relationships with stakeholders and shared information (4 indicators).
3. Employee readiness to keep relationship with key stakeholders and their responsibility (5 indicators).

4. Organization’s culture support for personal values and needs (8 indicators).
5. Organization’s orientation to satisfaction of stakeholder needs (4 indicators).
6. Organization’s actions ensuring stakeholder satisfaction (7 indicators).
7. Organizational systems set up or redesigned to support the mission (5 indicators).
8. Organization’s policies geared to long-term success (2 indicators).
9. Care for environmental issues (1 indicator).

Figure 1. Arrangement of the criteria according to the phases in organization (worked out by the authors)
to detect strengths and weaknesses of organization’s management when striving to satisfy stakeholders’ needs as well as the viewpoint and readiness of employees and senior management to satisfy stakeholders’ needs.

References


Santrauka

Kompetentinga suinteresuotųjų šalių analizė yra geras metodas įsitikinti, suteikti prioritetas ir taip daryti poveikį situacijai bei gauti rezultatą, suetikant galimybę sukurti papildomą vertę (Bardach, 1998). Suinteresuotųjų šalių analizė nėra sunku atlikti, nePLAY (Grimble ir Wellard, 1996); analitikai patobulinti intervenciją (Engel 1997); kaip vadybos ir veiklos procesams. Prieš pradedant analizę, organizacija turi nusistatyti jos tikslą. Mokslinėje literatūroje minėtos įvairios galimos priežastys įvairių suinteresuotojų šalių analizė atlikti:
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