STAKEHOLDER ANALYSIS AND MANAGEMENT.

Checklist 234

» INTRODUCTION

In the past, companies have predominantly been managed with an eye to the financial returns for shareholders. This approach is still common, but an exclusive focus on maximising shareholder returns has come under increasing criticism for business as well as social reasons. Stakeholder theory argues that the interests of all stakeholders – not just those with a financial stake in the business - should be taken into consideration. Proponents of this approach argue that this approach will contribute to the success of the business and ultimately the interests of shareholders. Fundamental to stakeholder thinking is that the interests of all stakeholders are taken into account in order to maximise the value of the organisation. The needs of each stakeholder should be understood, respected and incorporated into company thinking and plans. To achieve this, managers need to identify their key stakeholders, and understand their interest in, contribution to or affect on the organisation and its ability to meet its objectives.

The stakeholder concept has its origins in the study of corporations and how they make decisions. R. Edward Freeman's Strategic Management: A Stakeholder Approach (1984) which is regarded as a seminal work of stakeholder theory. The assertion that organisations should concern themselves with the demands of multiple constituencies can be traced further back to classic management studies by Chester Barnard and Mary Parker Follett. Growing interest in the role of business in society has also contributed to the popularity of the stakeholder approach, which focuses not just on the internal processes within a company, but the wider business and social context in which it operates.

The aim of stakeholder analysis is to provide decision makers with information about the individuals and groups that may affect the achievement or otherwise of their goals. This makes it easier to anticipate problems, gain the support of the most influential stakeholders, and improve what the organisation offers to different groups and individuals and how it communicates with them.

» DEFINITION

A stakeholder is any group or individual with an interest or a stake in the operations of a company or organisation - anyone who can affect or be affected by its activities. This includes: internal stakeholders such as employees, departments, divisions or subsidiary companies; external stakeholders such as business partners, customers and suppliers; and wider groups within society such as government departments, the media and pressure groups. Stakeholder analysis is the process of identifying an organisation's stakeholders and their interests, assessing their influence, or how they are impacted by the organisation, so as to formulate strategies for managing relationships with them.

At strategic level an organisation may conduct a broader review of stakeholder relationships to inform the strategy making and objective setting process. At an operational level, an individual manager may undertake a stakeholder analysis within their own division or department in order to better manage the motivation, cohesion and commitment of key stakeholder groups. Equally stakeholder management is relevant to

projects and programmes.

1. Gather information

Involve as many relevant people as practicable to ensure that you get a full picture of all stakeholders. Relevant information can be gathered through brainstorming sessions, interviews and literature or Internet searches.

2. Identify stakeholder groups

Various sets of stakeholders have been suggested by different writers. Stakeholders can be internal – employees, managers, trade union members or departments, for example, or external such as customers or suppliers. A distinction can also be drawn between primary and secondary stakeholders. Primary stakeholders define the business and are vital to its continued existence. For example, the following are normally considered primary stakeholder groups:

› employees
› shareholders and/or investors
› customers
› suppliers.

Secondary stakeholders are those who may affect relationships with primary stakeholders. For example, an environmental pressure group may influence customers by suggesting that your products fail to meet eco-standards.

Secondary stakeholders could include:

› government – central or local government bodies
› legal authorities – inspectors and regulators
› the media – press, broadcasters, online media
› social groups - consumer groups, pressure groups, community groups
› commercial organisations – landlords, business partners, competitors.

Stakeholder groups will vary enormously according to the nature of the business. A public sector contractor, for example, might list central or local government as a primary, rather than a secondary stakeholder. A train company or media company may list its industry regulator as a primary stakeholder.

3. Map your stakeholders

One way to map stakeholders is to construct a diagram with the organisation at the centre, show primary stakeholders round it, and secondary stakeholders in a second tier:
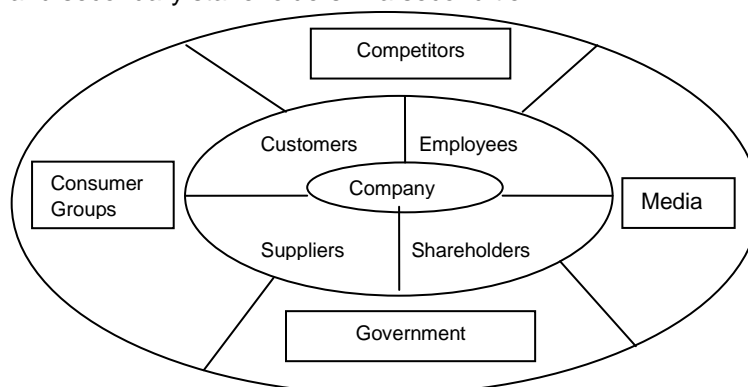
4.   Be specific

At this stage, it's important to think about exactly who the stakeholders are and to name specific groups and individuals. Segment the groups where necessary. For example list specific customer segments or divide your customers into retailers, distributors and end-users.

5.   Prioritise your stakeholders

A power/interest grid can be used to map the level of interest different stakeholders have in the operations of your organisation and their power to affect or be affected by it. This will help you to decide where you need to invest your stakeholder management efforts. Clearly, you will need to engage fully with those who have both a high level of interest and a high level of power and take great care over relationships with these groups. You will want to keep those who have power but less interest satisfied, but not overwhelm them with too much information. Those with high interest but little power should be kept informed, but you won't need to pay so much attention to those with little interest and little influence.

Stakeholder power/interest matrix

High		
	Keep satisfied	Engage and actively seek to influence
Power		
	Monitor only	Keep informed
Low		

Low   **High**

Interest

6.   Understand your stakeholders

Put yourself in the place of each stakeholder and ask yourself what their perspective of your business may be. What are their needs and concerns? What affects or influences them? What do they believe? What do they value? What motivates them? What potential threats or opportunities do they represent? Consider what you know about their actual and previous behaviour and what underlies it. It can be helpful to draw up a table listing each stakeholder and showing the level of priority you have assigned to them, the relationship you have with them and how they are impacted by your organisation.

7.   Develop strategies for action

Once you have decided which stakeholders you most need to influence and have begun to understand what motivates them, you will be in a position to consider the way forward. Here are a few questions to consider:

› How can you improve the products and services you offer to customers?

- › Do you need to tailor your offering to different customer segments?
- › How can you cooperate more effectively with suppliers?
- › What will enhance the morale of your employees?
- › What internal issues need to be resolved?
- › What might encourage external stakeholders to be more cooperative?
- › What opportunities are there to communicate and engage with different groups of stakeholders?
- › How can you change public perceptions of your organisation?
- › Which policies or actions might run the risk of alienating them or increasing the threat they pose to your business?
- › Which areas should you focus on?

Evaluate the impact of any proposals, considering how easy they will be to implement, taking any costs or cost savings into account and bearing the impact on other stakeholders in mind. The authors of 'Managing for Stakeholders', (see Additional Resources below) suggest that trading-off the interests of one group of stakeholders against those of another is a risky strategy. Over time the interests of stakeholders go together, so it is important to find creative solutions that satisfy the interests of multiple stakeholders.

8.   Communicate and develop relationships with stakeholders

A 'public relations' approach to stakeholders – that is, one way communication - can be used to put the company viewpoint across, but will only be effective if the assumptions on which it is based are accurate. Two-way communication, involving dialogue and negotiation with stakeholders may be more difficult, but can lead to a better understanding of stakeholder perspectives. It can also foster your credibility with stakeholders and contribute to the development of relationships based on trust and respect, the resolution of conflicts and the evolution of win-win scenarios. Monitor the feedback you get from stakeholders and use it as a basis for further discussion and action. Stakeholder management is a two stage process; the second step is to develop a proactive communication plan aimed at supporting business strategy and moving stakeholders away from positions that threaten business success and towards more supportive positions.

9.   Monitor and review

The environment within which a company operates is not static. The power and interests of stakeholder groups will change over time, so a regular review of stakeholder relationships is essential.

» POTENTIAL PITFALLS

Managers should avoid:

- › assuming they know what their stakeholders are thinking
- › seeing stakeholder management as a one-way process
- › trading the interests of one group off against those of another
- › ignoring and failing to engage with stakeholder groups that are critical of the organisation
- › neglecting the interests of important stakeholders.

» ADDITIONAL RESOURCES

BOOKS

Project stakeholder management, Pernille Eskerod and Anna Lund
Farnham: Gower, 2012

Stakeholder relationship management: a maturity model for organisational implementation, Lynda Bourne
Farnham: Gower, 2009

Managing for stakeholders: survival reputation and success, R Edward Freeman, Jeffrey S Harrison and Andrew C Wicks
Newhaven Conn: Yale University Press, 2007

Stakeholders theory and practice, Andrew L. Friedman and Samantha Miles
New York NY: Oxford University Press, 2006

This is a selection of books available for loan to members from CMI's management library. More information at: www.managers.org.uk/library.   These books are also available as e-books.

JOURNAL ARTICLES

Building understanding and knowledge: a case study in stakeholder orientation, Robert J. Duesing and Margaret White
Journal of Managerial Issues, Winter r2013, vol 25 no 4, pp 401-415

How the larger corporations engage with stakeholders through Twitter, Lilia Mamic Ivana and Isidoro Arroyo Almaraz
International Journal of Market Research, 2013, vol 55 no 6, pp 851-872

Who and what really matters to the firm: moving stakeholder salience beyond managerial perceptions, Pete Tashman and Jonathan Raelin
Business Ethics Quarterly, Oct 2013, vol 23 no 4, pp 591-616

Stakeholder happiness enhancement: a neo-utilitarian objective for the modern corporation,
Thomas M. Jones and Will M. Felps
Business Ethics Quarterly, Jul2013, vol 23 no 3, pp 349-379

Creating shared value, Michael E. Porter and Mark R. Kramer
Harvard Business Review, Jan-Feb 2011, pp 62-77

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www.managers.org.uk/library

» NATIONAL OCCUPATIONAL STANDARDS FOR MANAGEMENT & LEADERSHIP

This checklist has relevance for the following standards:

› Unit DD2: Develop and sustain productive working relationships with stakeholders

» MORE INFORMATION

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