Implementing stakeholder management

- A case study at a micro-enterprise

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Abstract
In recent years, organisations and particularly business organisations have undergone rapid and significant change. Not least of those changes have been the range of influence and the range of values that the organisation affects and are affected by, both positively and negatively. To survive in that volatile, often ambiguous and always uncertain environment, the contemporary organisation must satisfy a number of stakeholders whose wants and expectations are disparate, often in conflict and subject to change. Nowadays customers, co-workers, suppliers, management, stockholders, government and other groups are often influential enough to merit being considered as stakeholders. Stakeholders are those actors that provide the necessary means or support for the organisation, which, if their wants or expectations are not met, could be withdrawn causing consequential effects on the organisation.

Stakeholder theory suggests that to be sustainable, organisations must find a balance between different stakeholder interests. However, stakeholder theory and its implementation are still relatively unexplored. The paper presents a case study where a stakeholder model has been implemented in a micro-enterprise. Results include a revised model based on the experiences from the case. The stakeholder model has been adapted to accommodate a process approach and the PDSA-cycle.

1 Introduction
Although Freeman (1984) is often credited for the introduction, the organisational stakeholder concept was discussed as early as 1918 by Mary Parker Follet, see Schilling (2000). The stakeholder concept has been debated in research and discussions have been held whether or not stakeholder theory can replace the shareholder theory of the firm; see Sundaram & Inkpen (2004a); Freeman et al. (2004) and Sundaram & Inkpen (2004b). Some authors, see Radder (1998); Foster & Jonker (2003) and Bergqvist et al. (2006), have proposed that the stakeholder orientation will be the next step in the evolution of Quality Management (QM) and the basis for describing QM as a meta theory of management (Foley, 2005). Furthermore, it has been argued that by enlarging the focus from customers to include all stakeholders, a considerable portion of the quality management theory may be applicable to sustainability management; see Garvare & Isaksson (2005); Baumgartner (2003); Isaksson & Garvare (2003) and Edgeman & Hensler (2005).

Foley (2005) has argued that if the organisation can continue to meet the wants and expectations of the stakeholders, the aim of organisational sustainability will be
accomplished. However, this does not necessarily imply that global sustainability, i.e. sustainability of the planet Earth, is promoted (Garvare & Johansson, 2006). Sustainability promoters might be degraded to negligible interested parties due to embedded distortions of the power balance between actors of the system. If the concepts of stakeholder management and sustainability are integrated, this could help to guide organisations towards promoting a sustainable society. However, stakeholder theory and particularly, its implementation are still quite unexplored; see, for example, Baumgartner (2003); Sachs & Rühli (2005) and Foley (2005). The aim of the paper is to explore how stakeholder theory may be used within organisations and thereby contribute to the knowledge of operational stakeholder management.

2 Research Methodology

The paper presents a case study where data was mostly collected as participant observations; see Yin (2003) for a thorough description of the case study methodology. The research was deductive and designed on the basis of results presented by Garvare & Johansson (2006) and the stakeholder model presented by Simmons & Lovegrove (2005) and Simmons (2004).

The case organisation was a Swedish clothing design enterprise with the two founders representing owners, management and co-workers. The company is a joint-stock company; it was started in 2003 and was, at the time of the case study, considered to be in a start-up phase. The enterprise acted on an international market and had both domestic and international stakeholders. The sewing of the clothes was made by a supplier in Portugal. Two collections, spring/winter and fall/summer were presented each year. The biggest markets at the time of the case study included Sweden, Germany, Great Britain and Belgium. The selection of the case object was due to availability and the fact that the management showed interest in working with the stakeholder model.

The empirical material was collected through participant observations, workshops and non-structured interviews with the two founders of the enterprise. The data collection was accomplished over a period of seven months in late 2005 and in the beginning of 2006; almost weekly meetings of different extent and structure were carried through. Data was triangulated to some extent since both founders were interviewed separately to obtain their view of the enterprise and its environment. The material was then reviewed and discussed in workshops where also improvement actions were planned. The research project started with the identification of stakeholders and their interests, i.e. their wants and expectations. The identification of stakeholders and their interests was made according to how the founders perceived the organisational environment in which they acted. After the identification of the stakeholders, the following steps of the stakeholder system model introduced by Simmons & Lovegrove (2005), henceforth referred to as the S&L model, were followed; see Figure 1. After the first step of the research, the author of the paper influenced the results of the implementation to a greater extent. The S&L model, forming a stakeholder management system, was developed in knowledge-based organisations. It was therefore considered that it might need refinement to fit a micro-enterprise. The S&L model was used mainly for guidance and inspiration rather than as a blueprint.
3 Theoretical framework

Total Quality Management (TQM) may be considered as the latest evolutionary stage of QM. It involves the application of QM principles to all aspects of the organisation; see Dale (1999). TQM can be seen as a management system consisting of values, methodologies and tools (Hellsten & Klefsjö, 2000). According to Bergman & Klefsjö (2003), the aim of TQM is to satisfy or preferably exceed the needs and expectations of the customers with a reduced amount of resources. Inspired by the aim of TQM and the theory of management introduced by Foley (2005), the aim of stakeholder management may be to satisfy or preferably exceed the wants and expectations of customers, subject to meeting the wants and expectations of the non-customer stakeholders. The term wants is used since, to survive, organisations have to be able to fulfil stakeholder wants, but not necessarily their needs. The stakeholder view is thereby seen a constraint of the customer focus in TQM. Isaksson (2004) has suggested a set of values, methodologies and tools combining TQM and global sustainability; see also Garvare et al. (2006). Of the suggested values, those central in this paper were: Focus on Customers, Focus on Stakeholders, Focus on Processes, Improve Continuously, System Perspective and Focus on Sustainability. The methodology primarily focused on was the S&L model, and a variety of tools, mostly from the TQM framework, were used aimed at increasing stakeholder satisfaction.

According to Schilling (2000), successful organisations recognize their interdependencies, study the relationships with stakeholders and incorporate stakeholder interests in their strategies. Garvare & Johansson (2006) have developed a model for stakeholder categorisation; see Figure 2. The model divides stakeholders into groups of primary and secondary stakeholders as well as overt and latent stakeholders. Primary stakeholders are defined as those actors that provide the necessary means or support for the organisation, which, if their wants or expectations are not met, could be withdrawn causing consequential effects on the organisation. Depending on the nature of the organisation, primary stakeholders

Figure 1: The S&L model of stakeholder management. Adapted from Simmons & Lovegrove (2005).
may include customers, management, co-workers, investors, shareholders and government. Secondary stakeholders have the ability to influence primary stakeholders to take action against non-accepted behaviour or cause unacceptable damage to the organisation. The secondary stakeholders may include non-government organisations, media, fair-trade bodies, environmental pressure groups and other individuals or organisations that, in one way or another, if their wants and expectations are too heavily violated, may be able to influence primary stakeholders to such an extent that they would withdraw the necessary means. The classification of overt and latent stakeholders is dependent on whether the stakeholder is known to the management of the organisation or not. Interested parties are those with any interest in the organisational activities, output, or outcome, although these parties have a lack of power or instruments to influence primary stakeholders to take action. Customers are defined as individuals or organisations being downstream in the product life cycle process and fulfilling the stakeholder criteria, i.e. the recipients of a product. See Garvare & Johansson (2006) for a more thorough discussion on stakeholder definitions and classifications.

Mitchell et al. (1997) argue that it is the managers’ perceptions that determine the salience of the stakeholders and decide which ones deserve management attention. According to Lozano (2005), managing through stakeholder interests is to interpret and understand relationships rather than identifying actors. Stakeholders can be satisfied through three different concepts: accommodation of interests, alignment of interests or balancing of interests (Susniene & Vanagas, 2005). However, the stakeholder groups cannot be regarded as homogeneous with coherent interests (McLarney, 2002).

According to Foley (2005), the aim of organisational sustainability will be accomplished if the organisation can continue to meet the wants and expectations of the stakeholders. However, distorted power balance or delayed feedback for non-sustainable activities may cause a gap between organisational and global sustainability. The model in Figure 3 describes the organisational environment and the stakeholder influence towards sustainability.
4 Results

The results from the case study are presented according to the S&L model in Figure 1.

4.1 Identification of salient stakeholder groups, perspectives and agendas.

Perceived legitimacy, influence, urgency and coherence of stakeholder claims

The identified primary stakeholders of the case enterprise were: consumers, retailers, agents, owners, the reference group, the manufacturer, financers and the government. Downstream in the supply chain were consumers, retailers and agents who all merit being classified as customers. The stakeholder interests were also identified; see Figure 4. When identifying the stakeholders and their interests, the stakeholder matrix presented by Foley (2005, p.6) was considered for usage. However, a modified cause-and-effect diagram was considered more appropriate due to its flexibility; see Ishikawa (1982). The necessary means were also identified that each stakeholder was expected to contribute, as well as the extent to which the management were satisfied with stakeholder performance. The most obvious secondary stakeholder was considered to be media, which were considered to be able to influence stakeholder perceptions of the organisation positively, but also, if they found organisational activities too unethical, to be able to influence customers not to buy the products. In accordance with Foley (2005), the customer stakeholders were those whose interests were considered to be the most important. Therefore most improvement actions were focused on increasing customer satisfaction.

In addition to the S&L model, the processes of the enterprise were mapped to visualise the value creating activities of the firm. As argued by Palmberg (2005a), it is not enough to focus on the products. The processes, how the products are produced, also have to be in focus (ibid). A process can be described as “a network of activities that by the use of resources, repeatedly converts input to output for stakeholders” (Isaksson, 2004, p.20). Process orientation is central in quality concepts like TQM, ISO 9001, ISO 14001 and Business Excellence Models (Bergman & Klefsjö, 2003; Baumgartner, 2003). As argued by Isaksson & Garvare (2003), it should be suitable to use process models when managing through stakeholder interests.
Furthermore, the most important global sustainability aspects, i.e. non-sustainable outcomes from organisational activities in a global perspective, were identified as being able to decide where global sustainability efforts were the most urgent and to see if stakeholder interests might require altered behaviour. To identify global sustainability aspects, the framework of the Natural Step was used, see Robèrt (2000). Those global sustainability aspects that were recognised as being considerable were the social impact both inside the organisation and primarily, at the site of the manufacturing and environmental impacts, caused both by transportations and by discharges from the manufacturer, see also Garvare & Johansson (2006).

5 Stakeholder synthesis: accommodation of disparate stakeholder perspectives. Hostile/instrumental/ethical organisational stance towards stakeholders

Disparate stakeholder perspectives existed mainly because equity was not agreed upon concerning how financial agreements and assignments between the enterprise and the agents should be set. This occasionally caused a non-desirable struggle between actors within the agent stakeholder group and the management of the enterprise. Disparate interests were also caused by financial restrictions. Therefore increased sales volumes were regarded as an important short-term objective. Larger sales volumes would also lead to cheaper manufacturing costs due to volumes discount from the manufacturer. Also, at a higher volume it would be profitable to move the manufacturing to China, which would cut production costs significantly. Since organisational wants and expectations on the manufacturer were believed to be better fulfilled from another manufacturer, a change was planned to be carried through for the next collection. The manufacturer was clearly a stakeholder, especially during the time the collections were sewn. However, the manufacturer was still considered replaceable between the different collections.

6 Emergent system: philosophy process, performance criteria etc. Procedural justice—stakeholder perceptions of performance management system design

Procedural justice includes perceived fairness of decision making; see Simmons & Lovegrove (2005). Since increased sales were regarded as the most important short-term objective of the enterprise, the main target was increased customer satisfaction. Three stakeholder groups,
agents, retailers and consumers, were identified as customer stakeholders. The customer stakeholders were considered dependent on the satisfaction of the customers that acted further down the supply chain, i.e. the satisfaction of agents and retailers were dependent on the satisfaction of the consumers. Important quality aspects, based on stakeholder interests, were identified and related to where in the processes they were located. Actions were then decided on and realized to improve performance. The most extensive improvement actions aimed at; raising attractive quality at consumer purchase, improving communication to stakeholders, securing product quality after the design process before products were manufactured and improving delivery performance.

As for global sustainability aspects, stakeholder interests for the enterprise concerned not being involved in any human rights violations. This interest demanded attention to the manufacturing process, where insight was limited for geographical reasons. Other unsustainable activities were not thought to have any significant requirements for change from any of the stakeholders. No further improvement actions were therefore considered. As a result, a gap between organisational and global sustainability was revealed.

7 System operation: perceived equity. Procedural justice- stakeholder perceptions of performance management in operation

Stakeholder perceptions of equity in system operation were decided to be measured mainly through complaints handling, since active collection of perceived stakeholder equity was not prioritized. In addition to handing complaints from customer stakeholders, it was also considered necessary to notice grievances from other stakeholders. At the time of the case study, equity was not perceived by all actors within the agent stakeholder group. However, it was only one actor within the group that was expressing strong dissatisfaction. The majority of actors within the stakeholder group did not agree to the specific actor’s interests. The disparate perspectives were solved through alignment of the actor’s interests. However, the managers were considering ending this specific partnership unless the interests had been changed to be more coherent to those of the rest of the stakeholder group. The actor wanted influence in a field that the managers perceived as their authority. This event indicates that the actor within the stakeholder group could not be seen as a stakeholder when its interests became too unmanageable.

8 System outcomes: decisions on reward, progression etc. Distributive justice- stakeholder perceptions of performance management system decisions

Perceived fairness of management decisions in the distribution of resources, for example regarding investments, rewards, employment and so on, is a measure of distributive justice (Simmons, 2004). Stakeholder perceptions of distributive justice were perceived as in step four of the S&L model through complaints handling. The implementation of the stakeholder system model was still in its introduction during the case study and no financial rewards were considered appropriate at that time. However, according to the managers, rewards for outputs or outcomes might be considered in the future. However, to create a reward system that promotes performance improvements and that all stakeholders consider equitable might not be unproblematic (Kerrin & Oliver, 2002; Randle, 1996).

9 System evaluation: stakeholder evaluation of system efficacy, efficiency, effectiveness and equity. Stakeholder perceptions of overall operation of performance management system.

The overall performance of the stakeholder management system can be assessed through both qualitative and quantitative measures in a stakeholder perspective (Simmons & Lovegrove,
The measures assessed in this case were mainly qualitative and related to the improvement actions decided on in the third step of the system model.

The importance of non-financial audit has been stressed by Foley (2005). Stakeholder management audit could be performed through self-assessment in accordance with Business Excellence Models where stakeholder interests are integrated; see Garvare et al. (2006). However, unless the evaluation models are minimised, these approaches are considered more appropriate for larger organisations.

For the micro-enterprise, the evaluation of the system has to be easy and straightforward. The evaluation was decided to be performed in a workshop where the fulfilsments of stakeholder interests were evaluated and future improvement actions decided. More extensive evaluations could preferably be performed in the future, for example following the self-assessment process presented by Garvare et al. (2006). Evaluations would preferably be performed twice a year after each collection has been delivered to the agents and retailers. Procedural justice would, by explicit interest, be possible to increase by inviting the reference group to participate in the system evaluations.

10 System reporting: level and quality of information disclosure, and organisational significance of stakeholder reaction. **Stakeholder satisfaction with dissemination and use of information of performance management system**

According to Foley (2005), actions designed to meet the interests of stakeholders will only satisfy those interests if the stakeholders are aware of those actions or become aware of their outcome. The importance of stakeholder dialogue has also been stressed by Foster & Jonker (2005). According to Lozano (2005) stakeholder management implies moving towards the relational organisation. In this case, only financers, the reference group and the government were expressing explicit interest in system reporting of organisational activities. The other stakeholder groups did not seem to have any interest in collecting information about the operation of the enterprise. It was implied that other stakeholders would have to become aware of the outcome, or receive information about improvements, even though not searching for it. However, the customer stakeholders did request easier access to information about the products, which was one of the improvement areas decided on in step three of the S&L model. Other relevant information would have to be communicated personally by the management.

**DISCUSSION**

A point that can be made is that for this study, to use stakeholder theory has been valuable for both analysis and interpretation. In the daily work of the enterprise, stakeholder wants and expectations have to be managed. Although, the implementation was made in a micro-enterprise, which together with the case study research methodology delimits generalisations. In this case, the S&L model was not strictly followed. Instead the different steps were interpreted and used as considered the most appropriate. The introduction of the S&L model did not change the way activities were conducted. Also, the rigidity of the stakeholder system was kept limited in order not to interfere with normal activities. Instead the discernible change was the structured way of finding improvement areas and of following up results. If a systematic procedure for the implementation of stakeholder theory is required, the S&L model could be suitable also in a micro-enterprise. However, the S&L model could benefit from further refinement.
Stakeholders and their interests cannot be seen as permanent over time; see the results section, Garvare & Johansson (2005); Foley (2005); Mitchell et al. (1997) etc. The use of the model therefore needs to be seen as continuous. So far, the first stage of the stakeholder system model has been conducted. Stakeholders and their wants and expectations, together with the other steps of the S&L model, need to be updated and renewed continually. It is the identification of possible improvement areas and their realizations that constitute the continual improvements, and the recognition of urgent stakeholder interests makes the system effective. To better display the needed emphasis on continuance, it is suggested that the model may be displayed as a PDSA-cycle, see Deming (1993).

A process focus could also be introduced. If the activities that create value to the stakeholders are not in focus, it will be harder to satisfy stakeholder interests. To integrate the stakeholder system model with a process model could further integrate stakeholder theory into the TQM framework; see Palmberg (2005b) for more information about process management. Furthermore, it may be valuable to identify sustainability aspects, both to be able to conclude to what extent stakeholders have global sustainability interests in organisational activities and to be able to proactively deal with future demands. In this case a gap between organisational and global sustainability exists, although it was rather minute since the impact on sustainability was limited. Its existence indicates that stakeholders did not have interest in promoting global sustainability. The imperative to close this gap could be to avoid compromising the ability of interested parties and stakeholders, including present and future generations, to meet their needs, see Garvare & Johansson (2006).

The influence from secondary stakeholders and how to manage their interests are only dealt with superficially in this paper. In this case, not to be remarkably unethical or detrimental to the environment is considered sufficient in order not to attract attention from actors with power enough to influence primary stakeholders to withdraw prerequisites. In cases where organisational activities are at the centre of secondary stakeholder attention, to find more extensive ways to manage their interests may become necessary. Also, the movement of actors, when interested parties attain power to merit being considered as stakeholders, needs further attention.

CONCLUDING REMARKS
However, it is suggested that the S&L model could be refined and also included in a process model. In Figure 5, the stakeholder system model introduced by Simmons and Lovegrove (2005), a process model introduced by Palmberg (2005a) and the model of stakeholder influence, introduced by Garvare & Johansson (2006) have been combined. The S&L model has been transferred into a continuous PDSA-cycle and then integrated in the process model. The model shows how a management system could be created combining the TQM framework and stakeholder theory. The wants and expectations of the stakeholders guide management decisions while the stakeholder satisfaction is accomplished through the processes. In addition to the values focused on in this paper, leadership and co-workership are important for organisational prosperity and are therefore used within the model; see for example Palmberg (2005a); Wreder (2006); Bergman & Klefsjö (2003). So far, the model is only tentative and its contents are not empirically supported from this case. Therefore it needs to be further researched. However, the model outlines a methodology of how organisations may be managed in order to achieve organisational sustainability.
Figure 5: A tentative process model for stakeholder management. The model is an integration of a process model introduced by Palmberg (2005a), a stakeholder system model introduced by Simmons and Lovegrove (2005) and a model of stakeholder influence, introduced by Garvare & Johansson (2006).

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