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Corporate stakeholder management

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Abstract

Stakeholder relationship management is currently regarded as one of the success factors for strengthening companies competitiveness. Each stakeholder group has its specific claims against the company that are often contradictory in relation to overall corporate objectives. Primary data collection was focused on identifying company goals and the company's stakeholder approach, defining stakeholders' typology, clarifying the quantitative indicators for stakeholders' requirements in each stakeholder group, and describing policies to resolve conflicts between the company and its stakeholders. Field research was evaluated with the Multi-criteria decision analysis method, specifically Analytic Hierarchy Process. Result is evaluation of the individual primary stakeholder groups' importance and hierarchy of their acceptance criteria.

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1. Introduction

Business management and the maintenance of long-term prosperity in the modern socio-economic conditions are becoming ever-more difficult. The 21st century has brought a number of qualitative and quantitative changes which companies must face over the long-term. According to Drucker (2002), no institutions – thus, no company lives in isolation and exists in and of itself. If an enterprise is to fulfil its function, it must exert an influence on other entities, for instance people, communities and the like. In this new society, enterprises must continue, in addition to their basic orientation on the quantitative aspects of life, to also take into consideration the qualitative aspects, that is

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to say, to the material, human and social environments of modern man and modern society. In the sense of the given facts, there is a growing emphasis in business being placed on respecting Corporate Social Responsibility (further only CSR) principles. The CSR concept is characterized by its going above and beyond the legislative framework. It represents added-value and the implementation of managerial visions which go beyond the necessary legal framework (Trnková, 2004). The application of the concept in essence means creating positive business attitudes towards its environment. Further, this has to do with changing the enterprise's attitudes towards its short-term business objectives – oriented on the size of the profit, to long-term aims, which not only ensure the economic growth of the enterprise, but also the environmental and social aspects of its activities. The success of an enterprise is then, given by the values created in all of the designated areas. The manifestation of CSR is an open dialogue with all stakeholders (interested parties) who influence the operation of the enterprise. The importance of a responsible approach to the business stakeholders themselves as reliable partners should be emphasized (Hušek, 1999).

2. Theoretical Foundations

2.1. The Stakeholder Concept of an Enterprise

The Stakeholder Concept of an Enterprise began to be fully developed in the second half of the last century. The first to deal with the issue of stakeholders in the context of the organization's existence was the Stanford Research Institute in 1963. In addition, Freeman developed a significant Stakeholder Approach to Business in his work: "Strategic Management: A Stakeholder Approach" in 1984 (Friedman & Miles, 2006; Freeman & Harrison, 2007). In it, he formulated the now well-recognized as classic definition of Business Stakeholders, in the sense that these are "a group or individual who can affect, or be affected by, the fulfillment of the objectives of the organization." (Friedman & Miles, 2006). Freeman is considered to be the founder of a concept that acknowledges the existence of stakeholders in relation to business practice. These have been, and continue to be further elaborated and developed by many authors. In principle, stakeholder access to companies (and organizations in general) has been developed into a Strategic, Prescriptive or Descriptive Approach.

The Strategic Dimension of understanding business stakeholders in its narrowest sense stresses that the company's stakeholders are strong entities of strategic importance, with the ability to influence the organization's existence. The strategic dimension of understanding enterprise's stakeholders focuses its attention on the analysis of the relationship between stakeholders and management and the economic results of the company. Freeman and his concept of business stakeholders is representative of this approach.

The Normative Dimension defines stakeholders by using social norms. It is rather, more focused on the ideals of Social Responsibility and Social Organizations. In a narrower sense, groups that have legitimate claims against the organization and an important responsibility are considered as stakeholders. In a broader sense, all existing entities around the company are considered as stakeholders. Peterson & Donaldson (1995) are prominent representatives of the Normative Approach, where the significance of managers and their roles in the company builds on moral and philosophical principles. For them, the legitimacy of stakeholders and alignment of organizational values with behavior in accordance with the company standards is essential. Normative Approaches, rather than concentrating on the management of stakeholders' relationships, tend to engage in a dialogue with them (Friedman & Miles, 2006).

The Descriptive Dimension is oriented on the description of individual stakeholder's cooperative and competitive interests.

Differing approaches to stakeholder concepts have led to the emergence of a variety of Enterprise Stakeholder Models. The models mainly differ from each other by the sum of stakeholder types, or the view upon their arrangements with respect to the company. Among the most well-known are variously modified models of the Primary and Secondary Stakeholders of the enterprise. Traditionally, employees, shareholders, customers, suppliers, communities are considered to be the enterprise's Primary Stakeholders (Freeman & Harrison, 2007). These are those stakeholders who have an interest in the creation of an enterprise's value. Actors in the wider business environment including the competition, the government, the media and other specialized organizations are considered to be Secondary Stakeholders.

2.2. The Analytic Hierarchy Process Method (AHP)

The AHP (Analytic Hierarchy Process) Method can be classified as the multi-criteria evaluation of alternatives and is one of the most commonly used tools for decision-making support. The model of the decision-making problem is a hierarchical structure - which means a linear structure containing a number of levels, each of which includes several elements. The arrangement of the different levels of the hierarchy corresponds to its arrangement from the general to the specific. The more general the elements in relation to the decision-making problem are; the higher the level in the hierarchy, and vice versa. There are certain connections and relationships between the elements of successive levels. The method for structuring hierarchy at each level depends on the type of decision-making problem, while the decision-making process may consist of either the selection of the best (Compromise) Alternatives/Variant or Variants in the layout according to their importance/preferences. In the case of simple tasks in the multi-criteria decision-making process, the hierarchical structure may have only three levels (Saaty, 1980).

The intensity of the relationship between the hierarchy elements can be expressed numerically. The initial value (Unit – 1–100%) assigned the highest level of the hierarchy is divided according to the preferences of the decision-maker to the next level, i.e. criteria. Evaluation on the second level is thus Criteria Weight v_j , where $j = 1, 2, \dots, k$, whose sum is equal to one.

Weighting of the criteria is further subdivided among the various options for the next (last) level, depending on how they are evaluated according to the given criteria. Evaluation on the third level of the hierarchy w_{ij} , $i = 1, 2, \dots, n$, $j = 1, 2, \dots, k$ can thus be interpreted as a preferential index i -eth variations in the evaluation by the j -tieth criteria. Their sum is again one. Thus:

$$\sum_{j=1}^k v_j = 1, \quad \sum_{i=1}^n w_{ij} = v_j, \quad j = 1, 2, \dots, k. \quad (1)$$

The total (global) preferential variant indices (total benefit /importance) are calculated from the preferential index options using criteria and weighting of the criteria:

$$u(X_i) = \sum_{j=1}^k w_{ij}, \quad i = 1, 2, \dots, n. \quad (2)$$

The most sophisticated numerical procedure for the implementation of the distribution of preferences is the Saaty Method (author of the AHP Method). It is based on the paired comparison of features at each level of the hierarchy for each pair of elements, and in relation to the criterion/element on a higher hierarchy level. This allows decision-makers to express preferences instead of a numerical scale and in a verbal way that is closer to them. The Verbal Scale may be:

- The assessed elements are equally important;
- One element is mildly/slightly more important than the second;
- One element is greatly/very important than the second;
- One element is greatly/very important than the second;
- Only one element is absolutely/extremely more important than the other.

The Verbal Scale can then be converted into numerical values by assigning 1-9 elements of equal importance to their extreme difference/ratio in importance. For minor importance, use the inverse 1/3 and 1/9. Information from the paired comparison are assembled together in a Saaty Matrix:

$$S = \begin{bmatrix} 1 & s_{12} & \dots & s_{1k} \\ \frac{1}{s_{12}} & 1 & \dots & s_{2k} \\ \vdots & \vdots & \ddots & \vdots \\ \frac{1}{s_{1k}} & \frac{1}{s_{2k}} & \dots & 1 \end{bmatrix}. \tag{3}$$

The matrix elements can be interpreted as estimates of the proportion of i-tieth and j-tieth element preferences. The matrices must be sufficiently consistent. A matrix is fully consistent if, for any three indices i, j, m , $s_{im} = s_{ij} \cdot s_{jm}$ applies.

For fully coherent matrices, it is not a problem to calculate the preference indexes of individual elements needed to solve a system of equations. e.g. for $k = 3$:

$$\frac{v_1}{v_2} = s_{12}, \quad \frac{v_1}{v_3} = s_{13}, \quad \frac{v_2}{v_3} = s_{23}, \quad v_1 + v_2 + v_3 = 1. \tag{4}$$

For the decision-maker however, the calculation of $k > 3$ elements, it is virtually impossible to specify preferences such that the matrix S is fully consistent. In this case – similar to the system of equations, it has no solution and in order to determine the Preferential Index matrix, the S vector is used, which is for the highest value of this matrix. Given that this calculation is not a trivial matter, this calculation is used as a fairly good estimate of the vector geometric average in each row of the matrix S , normalized to the sum of one:

$$v'_i = \left(\prod_{j=1}^k s_{ij} \right)^{1/k}, \quad i = 1, 2, \dots, k, \tag{5}$$

$$v_i = \frac{v'_i}{\sum_{i=1}^k v'_i}. \tag{6}$$

When using the AHP Method, the following steps must be performed:

- Definition of the goals to be achieved, definition of the decision options (options / alternatives). In terms of the objective to identify the global criteria, or as the case may be, sub-criteria, sub-sub-criteria, etc.;
- The establishment of a hierarchical structure. The lowest level elements represent the individual variants;
- The determination of the relative mutual preferences for all pairs of elements on each level with regard to the parent element (an element at a higher level).

3. Research Methodology

The term ‘Company Stakeholders’ relating to company working practice didn’t appear in the Czech Republic until the 1990s. There are a limited number of publications dealing with the discussed issue in Czech economic works.

In 2011, research among Czech companies was carried out focusing on the conception of stakeholders’ problems in Czech working practice. Czech companies of various sizes, different legal forms and fields of business were randomly addressed. The effort was to obtain information concerning their opinions and approaches towards company stakeholder problems from qualitatively different entrepreneurial subjects, as far as the legal form of the

business and the company size were concerned. This has become an important task for the development of a definition of stakeholders and its implementation in practice. The concept of the theory of stakeholders with respect to company practice would thus become much more real and tangible.

The aim of the research was to discover and establish the importance of the interests of the enterprise's Primary Stakeholders and the confrontation of these interests with the goal-oriented behavior of the enterprise.

The resulting research hypotheses were as follows:

H1: In the course of managing the relationships of the enterprise with its stakeholders, the negotiating position(s) of the individual Primary Stakeholder groups is differentiated and maximization of utility value for all to the same degree in the given time is impossible.

H2: The interests of the Primary Stakeholders can be specified and hierarchically arranged according to stakeholder groups' importance.

H3: Fulfillment of the enterprise's goals in comparison with fulfillment of stakeholders' claims relative to the enterprise may conflict.

The research was carried out by applying the questionnaire survey method. Out of a total of 200 questionnaires, 170 were used for further analysis. The empirical data was then processed using simple statistical analysis methods like the Arithmetic or Weighted Mean and the Analytical Hierarchical Process Method.

The structure of the respondents from the legal forms point of view can be seen in Table No. 1 below. These are forms of businesses set by the Czech Republic's legislation, i.e. Natural Person (hereafter referred to as "NP"), Co-partnership, Limited Partnership, Private Limited Company (further, "Ltd"), Public Limited company (PLC), Co-operative and State Enterprise.

Table 1. Number of respondents from the business legal form viewpoint

| Legal form | No. of Companies (n) | No. of Companies (%) |
|---------------------|-------------------------|-------------------------|
| NP | 20 | 11.8 |
| CO-partnership | 2 | 1.2 |
| Limited Partnership | 2 | 1.2 |
| Ltd | 89 | 52.4 |
| PLC | 50 | 29.4 |
| Co-operative | 3 | 1.8 |
| State Enterprise | 4 | 2.4 |
| Total | 170 | 100 |

The division of respondents into size categories (big, medium and small-sized) is given in Table 2. The sorting criterion was by number of employees, according to European Commission specifications. All valid forms of business in the Czech Republic were present in the research.

Table 2. Number of respondents from companies by size categories

| No. of Employees | Category | No. of Companies (n) | No. of Companies (%) |
|------------------|--------------|-------------------------|-------------------------|
| < 10 | Micro | 75 | 44.1 |
| 10–50 | Small | 39 | 22.9 |
| 50–250 | Middle-sized | 21 | 12.4 |
| > 250 | Big | 35 | 20.6 |
| Total | | 170 | 100 |

4. Research Results

Evaluation of the individual Primary Stakeholder groups' importance was performed by using the AHP method, on the basis of data acquired from the field research, viz. Table 3.

Table 3. Individual primary stakeholder groups' importance evaluation

| Primary Stakeholders | Weight |
|----------------------|--------|
| Owners | 0.227 |
| Managers | 0.189 |
| Employees | 0.176 |
| Customers | 0.221 |
| Suppliers | 0.188 |

Based on the current state of knowledge in Enterprise Theory, expectance criteria were suggested according to the individual groups of primary stakeholders. The criteria were chosen with an emphasis on their universal character, i.e. their general applicability for various businesses. The proposed claim scaling requirements are not always of a quantifiable nature, but some are directed to stakeholders' social claims. Based on the data obtained from the research, qualitative evaluation criteria were proposed in each of the monitored group using AHP Multi-criteria Analysis (Table 4).

Table 4. Enterprise owner goal importance analysis

| Stakeholder | Expectation Criteria | Weight |
|-------------|-----------------------------------|--------|
| Owners | Profit | 0.339 |
| | Growth in Enterprise Value | 0.305 |
| | Investments | 0.356 |
| Managers | Growth in Productivity | 0.305 |
| | Maximization of Turnover | 0.410 |
| | Pay and Managerial Benefits | 0.285 |
| Employees | Wages and Benefits | 0.482 |
| | Working Conditions | 0.240 |
| | Professional Growth and Education | 0.278 |
| Suppliers | Stable Sales | 0.375 |
| | Timely Fulfilment of Commitmens | 0.355 |
| | Payment Conditions | 0.270 |
| Customers | Product Quality | 0.394 |
| | Product Price | 0.386 |
| | Service, Warranty Conditions | 0.220 |

To meet the need for more in-depth analysis of the conflict of stakeholders' objectives and requirements, the research also examined the legitimacy of a sequence of scales for the different objectives of the company. The target benchmarks were based on a theoretical knowledge of Microeconomic Theory of Enterprises. The data obtained is summarized in (Table 5).

Table 5. Hierarchical organisation of enterprises' strategic goals

| Enterprise Goals | Weight |
|------------------------------------|--------|
| Strengthening Company Credibility | 0.282 |
| Work Productivity Growth | 0.105 |
| Reducing Risk Management Cost | 0.080 |
| Attracting and Retaining Employees | 0.215 |
| Long-term Company Success | 0.318 |

5. Discussion

If in the past, opinion tended to be that management should be focused exclusively on creating value for the owners of the company (Bohatá, 1998); the view is currently strengthening that whilst value is primarily created for the owners of the company, in parallel with the value of stakeholders. Therefore, in pursuit of its objectives, the company should also take into account claims for the fulfillment of all of the legitimate stakeholders of the company. The question remains however, whether in a given situation an egalitarian approach should be applied or does a hierarchy exist between the different actors called the stakeholders of the company. The research results show that the primary stakeholders in Czech business practices, perceived by order of importance are: 1. Owners, 2. Customers, 3. Managers, 4. Suppliers, 5. Employees.

The establishment of criteria for analyzing stakeholders' expectations is considered to be one of the most difficult challenges of the Stakeholder Concept. The research monitored the legitimacy and importance of the proposed requirements at the same time from the views of respondents. For each group of stakeholders, three target criteria were designed and, according to the results of the research, their hierarchical order was evaluated.

One of the reasons why firms should deal with relationships with key stakeholders is their potential to influence the overall performance and existence of a company. Knowledge from Enterprise Theory concluded that a common feature of all businesses is that, the identification of one target behavior is very difficult. Each stakeholder group has its own objectives and, according to their relative power, their influence on the target behavior of the company. The target equilibrium of an enterprise can thus be, to varying degrees, distorted.

The conflicting claims of stakeholders and objectives. The vast majority of respondents expected the possibility of conflict to arise between satisfying business objectives and stakeholders' requirements. A relationship must exist between the objectives pursued by the enterprise and the individual needs of stakeholder group where fulfillment of one does not happen at the expense of the other, even in the case of business and stakeholder relationships.

A component of the research was also criteria for the enterprise's goals. The proposed goals in the Czech business sector were hierarchically arranged by respondents as follows: Long-term Company Success, Strengthening Company Credibility, Attracting and Retaining Employees, Work Productivity Growth, Reducing Risk Management Cost. Ranking corporate goals according to preference cannot be regarded as immutable. They originate under the conditions of "ceteris paribus", and this may change over time. From the resulting hierarchy of objectives, it can be assumed that firms in the Czech Republic were mostly focused on maintaining their existence, and this, at the expense of profit targets. A Stakeholder Approach to business can be a factor which can significantly support the highest goals of a business.

6. Conclusion

The competitive business environment is constantly intensifying. The equilibrium of the enterprise may, under the circumstances, be influenced by a range of new factors. Their influence and impact on the enterprise can be not only positive but also negative. Therefore, it is necessary that the negative effects be noticed in sufficient time and also eliminated. On the other hand, factors that can affect an enterprise's existence positively must be used to benefit its long-term development, existence, etc. One of these factors is the existence of economic entities located both inside the enterprise and in its environs, which follow their own interests may influence target behavior and decision-making in a positive or negative way. These groups are, in contemporary economic theory and practice, termed stakeholders (interested parties) of the company. In order to maintain the long-term equilibrium of the enterprise, stakeholder groups and their influence on an undertaking cannot now be ignored. For these reasons, the

management of an enterprise's business relationship with its stakeholders should be part of Corporate Strategy. Using the appropriate techniques, methods and tools, the enterprise's stakeholders should be identified and analyzed with the aim of revealing alternative possibilities of their impact on the enterprise. An enterprise should exploit the potential collaboration with stakeholders to avail benefit to the enterprise and at the same time, detect potential threats and prevent them.

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