CHAPTER 8 - Strategic evaluation and choice

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8.4 Stakeholder analysis concerning strategic choices

Active reading. Note the range of stakeholders that can be considered and the use of stakeholder mapping to prioritize and determine a strategy to manage the stakeholder views. Also, think about how the presentation of financial forecasts and financial information could be used to influence stakeholder support for the strategy.

Video link Stakeholders and stakeholder analysis

[https://www.youtube.com/watch?v=k9-6Wlt84Ws]

When organizations implement strategies, there are many different groups of people who are affected. Therefore, organizations need to consider the potential impact that their decisions will have on various stakeholders. Definitions of stakeholders concerning organizations vary by the emphasis they place on the relationship. In broad terms, a stakeholder is any group or individual who is affected by or can affect the organization's activities (Freeman, 1984). Other authors, such as Clarkson (1995), stress that stakeholders can claim ownership rights or interests in an organization and its activities past, present, or future. These claimed rights or interests are the result of transactions with, or actions taken by, the organization. They may be legal or amoral, individual, or collective.

Bryson (2004) suggests that stakeholders are persons, groups, or organizations that must somehow be considered by leaders, managers, and front-line staff. There is broad agreement that stakeholders have an interest or a reliance on the organization and that organizations have a responsibility to their stakeholders. As sustainability is becoming more prominent, this leads to the conclusion that stakeholders would include future generations who are not yet born, as organizations need to consider the impact on the planet when making strategic decisions that may impact on sustainability.

Different stakeholder groups will have different interests and levels of influence concerning the organization and the decisions that it makes, which indicates why organizations need to assess stakeholder views about the strategy that is adopted. Organizations need to understand the criteria by which stakeholders will judge their performance against their expectations, and therefore what the organizations can do to satisfy those expectations. The degree of power and influence that various stakeholders can exercise, together with the legitimacy of the stakeholder relationship and the urgency of the claim, needs to be considered (Mitchell et al., 1997).

In practice, organizations cannot satisfy all stakeholders. Therefore, there needs to be a way of identifying and prioritizing those individuals or groups that are affected by or can affect an organization's ability to achieve its objectives (George, 2003). There will also be an element of a trade-off between competing aims. It may be a case of satisfying rather than maximizing stakeholders' needs and expectations.

8.4.1 Classifications of stakeholders

Stakeholders have varying degrees of interest and influence, depending on their relationship to the organization. One approach to deciding which stakeholders are relevant is to view their proximity to the organization in relation to the task or general environment, as illustrated in Figure 8.1. It determines the degree to which the organization relies on the stakeholder group for the successful implementation of its strategies.

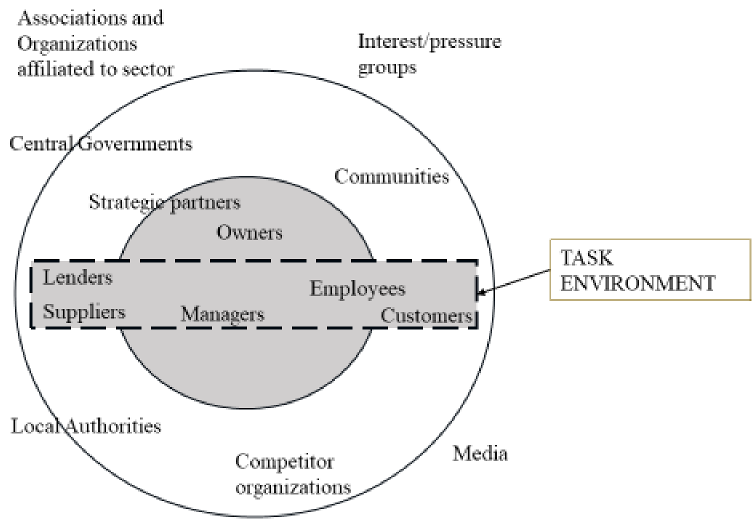

Figure 8.1 Stakeholders in relation to task and general environment

Another more simplified and potentially useful way of classifying stakeholders is using the mnemonic ICE, for internal, connected, and external

Internal

Typically, internal stakeholders are often thought of as employees being split between management and workers. However, employees can be broken down into many different groups who will have different interests, expectations, and degree of power or influence. Consider a hospital in which there are doctors, consultants, administrators, nursing staff, and porters. There may also be groups of workers who are contracted to another organization, such as caterers and cleaners. All groups could have a different view or reaction to a strategic decision taken by the organization, and some groups may be able to influence the success of the strategy more than others.

Connected

Connected stakeholders have a vested interest in the organization. This category will include shareholders and loan providers and sometimes suppliers and customers depending on the strength of the relationship with the organization.

External

External stakeholders might include the central government, the public, pressure groups, and the media.

Like most strategic analysis tools, stakeholder analysis is not a precise science. Mendelow (1991) suggested that stakeholders' views will differ depending on the strategic decision being made. Different dimensions need to be considered, such as whether power and influence are individual or collective. For example, an employee or customer may not have much power individually to change a decision, but collectively could exert a higher degree of power, often in the form of a trade union or consumer group. The impact that a stakeholder group may have could also be short term or long term.

It is possible to determine that there will be conflicts arising between stakeholder groups. For example, closing a manufacturing unit will not be acceptable to employees. If, however, it is increasing profitability via cost reduction and increased efficiency in other units, shareholders may well support the decision. The relative power positions of stakeholder groups can be determined by the degree of dependency an organization has on a stakeholder group at any time. For example, an organization that is experiencing severe cash flow problems may be dependent on its bankers to provide it with finance, which puts the bank in a strong position to influence strategy. In some cases, the bank may demand a seat on the senior management team to protect its position.

The degree of reliance can be analyzed by understanding the degree of disruption, ease of replacement, and degree of uncertainty that a stakeholder group can create (Mintzberg, 1999). As an example, the London underground train system has a strong driver's union, and disputes frequently arise between the union and the management team. The union is in a strong position as a stakeholder as they can disrupt the organization's plans by calling the drivers out on strike, that is, withdrawing their labor. Due to the labor protection laws in the United Kingdom, it is difficult to replace employees, certainly in the short term. The union went through a long-running dispute by threatening to go on strike, and then calling it off at the last minute. This action creates a high level of uncertainty for the thousands of people who use the underground train system to get to work, creating uncertainty in many organizations operating in London. These three factors put the union in a strong position with a high degree of power and influence over the decisions, requiring a participative approach to management by the organization in dealing with the stakeholder group.

8.4.2 Stakeholder Mapping

The technique of stakeholder mapping can be used to understand the dynamics of the stakeholder influence on a strategic decision being considered. A typical matrix showing the degree of influence and power on one axis against the expectations or level of interest on the other axis can be used, as shown in Figure 8.2.

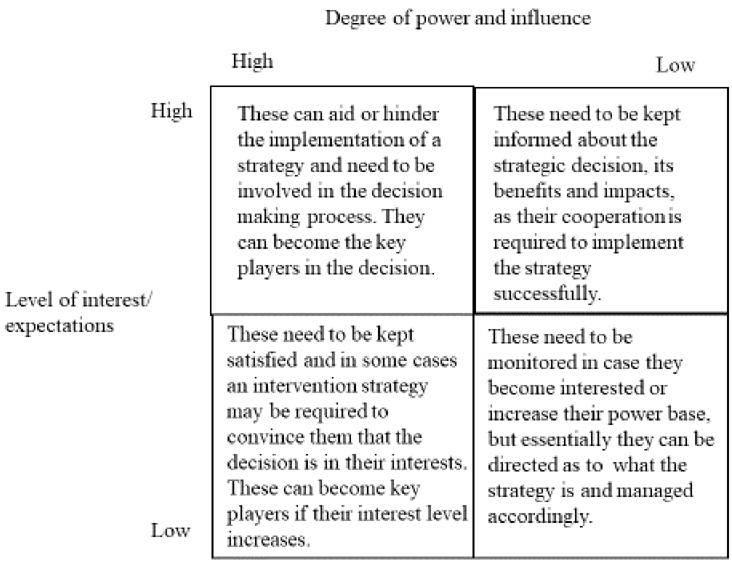

Figure 8.2 Stakeholder mapping

Stakeholders with a high degree of power and a high degree of interest can be described as key players: strategy must be acceptable to them, at least. These stakeholders can exert considerable influence on the strategic decision under consideration, for example, a significant provider of capital such as a bank, or a local authority from whom planning permission is required to develop the land. It can extend to powerful suppliers or customers where they hold a high degree of power in negotiations.

It is the key players that an organization needs to identify when formulating strategy. However, it is essential to realize that stakeholders can move from one quadrant to another depending on the situation under review and must, therefore, be managed appropriately, as indicated in Figure 8.2. Although the analysis can be undertaken as a general exercise, it is best deployed as a way of understanding the key players in relation to a strategic decision.

8.4.3 The Case of Dyson's Decision to Move Production Overseas

Dyson is a U.K.—based company that became famous for developing new technology for vacuum cleaners. Soon other products were added to the portfolio. In 2002, the multimillionaire and inventor James Dyson, the owner and then sole shareholder, decided to move production of his bagless vacuum cleaners to the Far East with the loss of 800 jobs in the U.K. The decision was also part of the strategy to launch products in the U.S. market. Countries such as Malaysia were closer to the U.S. market, and the move would not only reduce production costs by 30 percent but also release additional cash that could be used to fund the marketing campaign.

James Dyson had been critical of the U.K. government for not doing enough to support manufacturing, and not surprisingly, the U.K. government expressed their disappointment at the move. The trade union was also very vocal in their condemnation of the move but could do little to stop the decision. Mapping the stakeholders affected by the decision, as shown in Figure 8.3, illustrates why James Dyson was able to make the decision unopposed as there were no stakeholders with enough power and influence to affect the decision-making process.

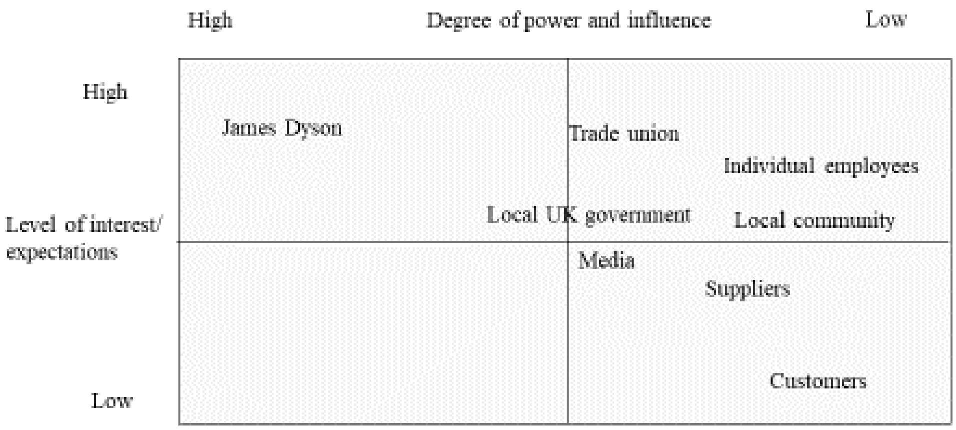

Figure 8.3 Stakeholders affected by the Dyson decision to move production overseas

Learning activity. As the covid-19 pandemic has affected many people in different ways, there is a growing need for help from volunteers and charities. The crisis has, however, also meant that many people are suffering financially, and charities have seen a drop in donations. Some governments are even talking about reducing the amount of financial aid given to international organizations for charitable enterprises.

Imagine that you are a senior manager with an international aid organization that provides humanitarian and development aid to children worldwide, receives approximately 60% of its funding from government grants, 10% from corporate donors and the rest from private donors.

The organization has learned that government grants are likely to be reduced or not renewed next year. The organization has some permanent employees but relies mainly on volunteers at a local level.

The senior management team recognizes that it may need to reduce the amount of aid it can provide during the next few years if it is unable to attract the usual levels of funding. Undertake a stakeholder analysis to reflect the level of interest and degree of power of stakeholders related to this decision.