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## The role of stakeholders in the process of building a competitive advantage with the example of development companies

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**The role of stakeholders in the process of building a competitive advantage with the example of development companies**

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## **The role of stakeholders in the process of building a competitive advantage with the example of development companies<sup>1</sup>**

**JEL Classification:** *L74; M20; R31*

**Keywords:** *a development company, housing market, stakeholders, stakeholder theory, competitiveness*

### **Abstract**

**Research background:** Contemporary companies are faced with opportunities as well as dangers resulting from relationships with their environment. It is therefore important to define stakeholders and manage relations with them by implementing organizational principles and practices that take into account stakeholders' concerns and objectives, but are also consistent with a company's strategy and its economic goals (Banks, Vera, Pathak, Ballard, 2016, pp. 18-27).

**Purpose of the article:** The aim of this article is a diagnosis of a sort of the theory of stakeholders present in the relevant literature. In addition, stakeholder identification was presented along with their role in the process of building a competitive advantage of a development company.

**Methodology/methods:** An analysis of secondary sources was verified by empirical studies. An analysis of the role of stakeholders in the functioning of an enterprise was made using the so-called 'brainstorming method'. The study was conducted with the students of faculties at the Faculty of Management of the Białystok Technical University in December 2012 and in the years 2014-2016.

**Findings & Value added:** In the first part of the article, the key assumptions of the stakeholder theory and their impact on the competitiveness of entities are discussed, and the term "a development company" is defined. The second part presents conclusions from empirical research. These made it possible to formulate a list of main stakeholders who contribute to building a competitive advantage for developers. These entities are included in several groups: customers, suppliers, strategic partners, regulators and current and potential competitors.

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## **Introduction**

Competition is the primary determinant of the change in the functioning of any company on the market. The consequence of companies competing is therefore an improvement in the quality of goods and services they offer, an increase in the quality of service on the market, a development of technology they use, and maintenance of good relations with their stakeholders.

The mechanism of market competition provides companies with a challenge to meet stakeholder expectations while at the same time interacting with competitors. Studies on competitiveness of enterprises indicate an important role in sectoral studies; other mechanisms will be applicable in the case of service activities, other still in the production or construction.

The main part of the study was devoted to an attempt to identify the proximate entities and to indicate their role in the process of building a competitive advantage of development companies.

## **Method of the Research**

The analysis of secondary sources was verified by empirical studies. The study was conducted with students of faculties at the Faculty of Management of the Białystok Technical University: Management, Management and Production Engineering, Logistics in December 2012 and in the years 2014-2016. The selection of participants in the study resulted from the development of long-term policies by the developers and thus the interest in the offer by students who presently or in the future will constitute a group of potential clients.

An analysis of the influence of environmental entities on the functioning of a development company was made using the method of the so-called 'brainstorming'. In the first stage of the study, the students were divided into groups of 4-6 people in which they discussed the problem ("what units of the task environment influence the functioning of real estate companies operating in Białystok and how") and wrote down their ideas. In the second stage, each group presented their ideas and discussed them together.

## **Paragraph – body of the paper**

### ***Development enterprises' business activities – theoretical aspect (background)***

The term "developer" means a natural or legal person who initiates, promotes, commences and conducts a real estate project. Its purpose is to

develop space, build new commercial real estate or transform existing ones by creating new property functions (Avril, Roth, 2001, pp. 13-14).

At the same time, some kind of specifics of a development process must be observed. It results from the goal of increasing the value of a property. The development process is therefore understood as the coherence of construction technology, financing, administrative control, marketing skills, and many other activities aimed at ensuring the operation of the whole project for many years. Development activity is complex, including, beyond just the real estate business, also adaptation processes related to its specific economic, legal, and interest groups (Kucharska-Stasiak, 2006, p. 229).

The European Classification of Activities NACE Rev 2<sup>2</sup> does not take into account development activity separately, hence the considerable difficulty in identifying developers and an elaboration of statistics to analyze this form of economic activity.

### ***Competitiveness of enterprises in the light of the theory of stakeholders***

The dynamic environment in which today's businesses function determines a strategic thinking to achieve a competitive advantage. A fundamental activity is the orientation of companies towards their clients (Bergeron, Roy, Fallu, 2008, pp. 171-184) and other entities in the target environment.

In the 1960s and 1970s, factors such as low cost and production efficiency gave a company a competitive advantage. At present, they still remain the basis for staying in the market, but they are not sufficient to secure a strong competitive position. Today's winners are characterized not only by cost effectiveness and high internationalization, but also by the ability to develop strategies that ensure the continuity of the innovation process. The importance of communication and building relationships with stakeholders, social and environmental responsibility towards local communities and global society are also underlined (Archibugi, Lundvall (eds.), 2001, p. 255).

The stakeholder theory in management has been coherently formulated by R.E. Freeman (2010). It focuses on interdependencies between an organization and its stakeholders. In the opinion of the author of the theory, a competent management of relations with the entities in the company's environment can make a significant contribution to achieving its objectives. The stakeholder theory is based on three premises:

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<sup>2</sup> 1 Regulation (EC) No. 1893/2006 of the European Parliament and Council of 20 December 2006 on the statistical classification of economic activities NACE Rev 2.

1. There are specific relationships between an organization and its stakeholders, so that the two sides of the relationship remain mutually influenced.
2. This interdependence can bring potential benefits to both parties.
3. Each stakeholder has specific expectations about the organization, both in the economic and other areas, and seeks to achieve them.

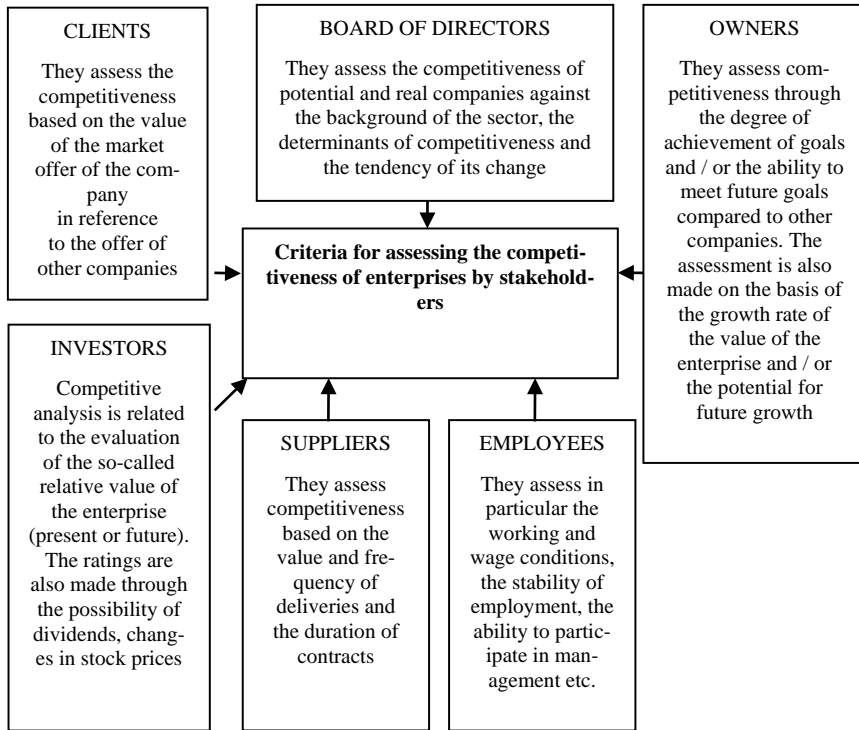
The stakeholder theory disseminates a useful, effective and ethical way of managing organizations in a complex environment (Harrison, Wicks, 2013, pp. 97-125). It is effective because it uses stakeholders' energy and knowledge of them to achieve the goals of an organization. At the same time, the stakeholder theory is useful because companies that manage stakeholders have better information on which to base their decisions (Harrison, Freeman, de Abreu, 2015, pp. 858-869).

L. Friedman and S. Miles emphasize the importance of identifying stakeholders not only from the perspective of an organization and explaining how the relationships of an organization and its stakeholders change over time (2002, pp. 1-21).

Due to the fact that the main topic of the theory of stakeholders is located in the market environment of a company, its assumptions are very close to the concept of relational marketing (affiliate marketing). The meaning of the analyzed theory and relational marketing is the need to establish and maintain relationships not only with buyers, but also with other entities such as suppliers, strategic partners, the media, employees, etc. The stakeholder theory is a concept of management through building clear, understandable to all parties, long-term and lasting relationships with stakeholders (Wańkowski, 2015, p. 158).

J. Walas-Trębacz (2013, p. 37), taking into account the evaluator and the scope of the assessment, lists the following types of competitiveness: the competitiveness of an enterprise from the customer's point of view, corporate competitiveness recorded by its board of directors, perceived by an owner, from the perspective of potential investors (Figure 1) .

**Figure 1.** An identification of entities of the target environment of development companies



Source: based on: Walas-Trębacz. J. (2013). Metody i mierniki oceny konkurencyjności przedsiębiorstwa. *Przegląd Organizacji*, no. 4, p. 37.

In the case of development companies, the presented elements would need to be complemented by one other: cooperating companies. These include, but are not limited to, subcontractors, partners, suppliers of materials and services. The importance of good cooperation with this group of stakeholders is becoming increasingly important in the context of uncertainty of the environment and increasing competition in the market (Głuszek, 2004, pp. 135-138).

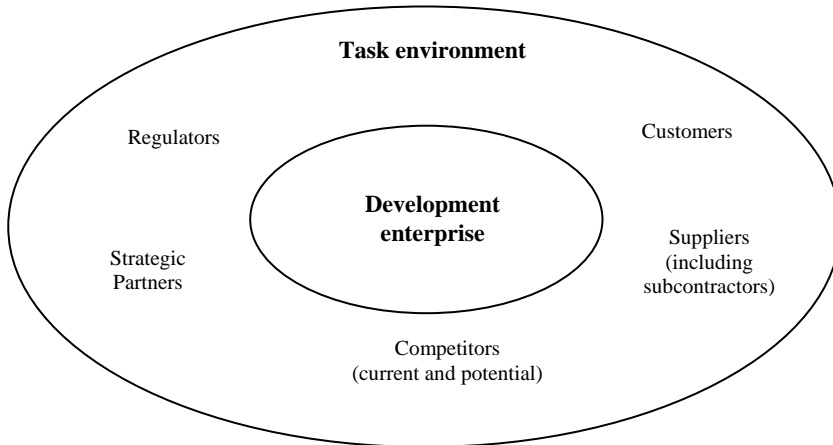
### ***Identification of entities of the target environment of real estate developers***

Depending on the values observed by an enterprise, it is necessary to conduct a stakeholder analysis, to assess their expectations, and to select the optimal – from the perspective of the entity – level and model of co-

operation with them in the value-creation strategy of an enterprise (Marcinkowska, 2011, p. 861).

At the stage of identifying interest groups, it is most often pointed to internal and external interested parties. A summary of the main target groups is shown in Figure 2.

**Figure 2.** An identification of entities of the target environment of development companies



Source: based on: Griffin, R.W. (2015). *Management. Twelfth Edition*. Boston: Cengage Learning, p. 74.

**Customers** were identified as physical persons who purchased flats, detached houses, semi-detached houses and terraced houses as well as companies purchasing commercial and service premises. Within the brainstorming, this group of entities indicated in particular:

- young couples;
- families with children wanting to change their apartment into a larger one;
- older people wishing to swap an apartment for a smaller one or with an elevator in the building;
- divorcees;
- parents/grandparents who buy flats for children/grandchildren;
- people moving from rural areas or other cities;
- individuals / companies purchasing apartments for rent, for investment purposes;
- businesses purchasing apartments/business premises to run a business;



- real estate agencies;
- people working abroad, wishing to invest in Poland, planning to return to the country in the future;
- foreigners from Belarus, for example, who want to locate funds that are considered illegal in their country (Grześ-Bukłaho, 2015, p.180).

In many markets, including the development market, buyers notice fewer and fewer differences between the offers of competing businesses. As a result, buyers expect some added value over competitive offers in a given price segment (Altkorn, 2004, p. 26). Providing such a value is the basis for building respect and, as a result with experience – a competitive advantage of a company.

**Suppliers** of development companies were divided by the participants in the so-called brainstorming into two categories: suppliers of building materials and service providers (subcontractors); they also distinguished: media providers, construction equipment suppliers, transport companies, as well as financial providers (banks). The students have recognized the importance of suppliers, particularly subcontractors, for the position of a company on the market. This is due to the direct influence of subcontractors on the quality of the apartments offered by developers and the timely execution of the investment (Grześ-Bukłaho, 2015, p.180).

**Table 1.** An identification of current and potential competitors of real estate developers

<b>Competitors of development companies</b>	
<b>Primary market</b>	<b>Secondary market</b>
Other development companies	Real estate agencies
Housing co-operatives	Private people selling their own flats
Construction companies	
Social Housing Association	
Private persons or construction companies who own some land in attractive locations - most often realizing investments in the form of terraced buildings	
Real estate agencies	

Source: author's own study based on the data collected during the so-called brainstorming.

**Competition** in real estate developers can be divided into two categories: entities offering primary and secondary housing (Table 1). Competition has a very significant impact on the financial condition and functioning

of real estate developers. This results in particular from the 'fight' for a potential client, but also from the competition when buying land in attractive locations, establishing partnerships with reliable subcontractors, and acquiring qualified and experienced staff (Grześ-Bukłaho, 2015, pp. 182-183).

The students also considered the importance of **strategic partners** in building the reputation of developers, including such entities as banks, architects, construction managers, surveyors, notaries, media, advertising agencies, real estate agencies, insurance companies, security agencies. Allies, in the opinion of brainstorming participants, can influence the efficiency of the investment process, the quality of the housing developer's business, provide valuable guidance, and help create new market opportunities. In addition, they affect the financial resources available to the developer, the financial security of the investment, the legal security of the transaction, the number of customers acquired, and the price and timing of the investment.

Apart from the aforementioned entities, the participants of the 'brainstorming' also included **regulators** as parties with whom they relate to the reputation of developers, listing in this group: municipal / communal offices, Construction Supervision Inspectorate, Office of Competition and Consumer Protection, State Fire Brigade, National Labor Inspectorate, Tax Office, Social Insurance Institution. Regulators control and regulate the policies and practices of the developer company and their investments. An important regulator from the point of view of development companies remains the offices of cities and municipalities where construction investments are made. Land development plans or development decisions issued affect the possibility of realization of specific investments, specify the type of possible development and the conditions of land development (Grześ-Bukłaho, 2015, p. 183-184).

## Conclusions

Each group of interest of a development company, by creating and expressing an opinion about it, evaluates it through its own needs and interests and their satisfaction. Partner relationships, in I. Gordon's opinion, are the only real asset of a company, not the machines that manufacture the products, the products themselves, or even the intellectual capital that is inherent in people, patents or know-how, though all that may be important. Partner relationships with the environment, however, affect the long-term operation of a company and the possibility of long-term development (Gordon, 1998, p.XIII).

In addition, by analyzing how stakeholder attitudes can influence the value of development companies, we need to agree with D. Wheeler and R. Davies (2007, p. 231), who point out that this is achieved by strengthening

business relationships (bilateral exchange, minimization of transaction costs), social capital (reciprocity) and reputation (trust, prestige). According to the authors, such attitudes translate directly into permanent value.

An analysis of secondary materials and empirical studies conducted by the author indicate that, for the development enterprises, relational capital plays a fundamental role. An analysis of the competitiveness of developer companies based on relational capital certainly requires further successive verification by researchers. It also seems a good idea to extend the study to analyze the impact of changes occurring in the general environment of development companies.

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