Customers, Employees, NGOs – Which Stakeholders Do Really Count?

A holistic conceptual framework for stakeholder prioritization and expectation management

Dipl.-Kffr. Stefanie Grunert
Dipl.-Kffr. Maike König

Arbeitspapier Nr. 15-1

Mai 2012
1 Introduction

Corporate Social Responsibility (CSR) has become an intensively discussed topic in management research especially during the last few years. Hundreds of studies were published: from a detailed – and still not found – generally accepted definition of CSR up to the monetary influences of social engagement on the economic success of a company. In addition to the attention in theoretical research it gets increasingly important for management practice. Companies are more and more urged to respond to the expectancies of their stakeholders. Shareholders, employees and Non-Governmental-Organizations (NGOs) are just three of many stakeholder groups that frequently enunciate their partially very different expectations in vehement ways and thereby putting the companies under great pressure. The management of these expectations has become a key factor for economic success. Incidents in the past prove that stakeholders can be able to influence the companies environment appreciably. One example is the boycott of products and services of the Shell Group in 1995 during which 75% of the German population supported Greenpeace (Retzmann, 1996). The NGO appealed for the boycott, because Shell planned to dispose the oil platform “Brent Spar” by sinking it in the North Sea. Although, the discussion was partially based on wrong assumptions, Shells revenues declined temporary for approximately 50 %. Today, a similar incident would in all probability cause even more losses. The reason is the tight networking of stakeholders and interest groups due to the various possibilities provided by the Internet.

Thus the management of stakeholder expectations is essential. The major difficulties consist in pondering conflicting stakeholder interests as well as in balancing stakeholders’ and the company’s objectives. Fulfilling stakeholders’ demands generally strains financial resources and consequently affects the financial performance of a company in a negative way – at least in the short term. That makes an efficient choice of relevant stakeholders and their expectations necessary. A prioritization of stakeholder groups depending on their relevance for a company is one main aspect. The higher the importance of stakeholders, the higher is the need for an in-depth analysis of their expectations. But which are the factors that determine the relevance of a stakeholder? And how to deal with interest groups that emerged as important for the company? These questions and the deduction of adequate recommendations are examined in existing studies. Firstly Savage (1991) points out the stakeholder’s potential to cooperate or threat. Polonsky (1996) supplemented the criterion of influencing third parties. In contrast to that, Mitchell/Agle/Wood (1997) focused on the prioritization of interest groups by analyzing the factors power, legitimacy and urgency. Freudenberg (1999) concentrated on the stakeholder characteristics knowledge, power and preferences, whereas Frooman (1999) developed a resource based concept. At least Johnson and Scholes (2002) ranked interest groups by their concerns as well as their influencing potential. All these studies include important and relevant aspects. In a broader picture however, the existing concepts either focus on parts of the relevant criteria consciously or they disregard important factors unconsciously. Thus the main goal of this paper is the development of a holistic conceptual framework to close this academic void.

The methodology to be developed must therefore ensure that responsibility is recognized and that stakeholder requirements can be classified into a suitable scheme so that the development of ethically and morally maintainable strategies becomes possible. Furthermore it has to be practicable and cost-efficient in order to be applied in corporate practice.
To reach this goal we firstly analyze the approaches mentioned above in chapter 2. Strength and weaknesses are pointed out to provide a basis for the further conceptualization. The studies are introduced in chronological order ensuring the understanding of concepts that base on prior results. Table one at the end of that chapter summarizes the main facts and is supplemented with implications for the new conceptual framework to be developed. Chapter 3 contains the conceptualization. Stakeholder requirements are prioritized based on the approach of Mitchell/Agle/Wood. Furthermore the critical consideration of the other stakeholder-theories leads to a definition and logical conjunction of the relevant criteria (3.2). To reach the goal of a holistic conceptual framework, this prioritization is supplemented with strategic recommendations for the management of stakeholder expectations (3.3). The developed scheme is applied to the interest group of the first priority (stakeholder with power, legitimacy and urgency) to exemplify the conceptual functionality in chapter 4. The embedding in a broad stakeholder management strategy in chapter 5 ensures the aimed holistic concept. Chapter 6 contains a summary and conclusion.

2 Review of existing stakeholder-theories

Savage, Nix, Whitehead and Blair argue that an effective corporate strategy requires consensus from key stakeholders. A key stakeholder is assumed to have the power to influence business decisions (Savage et al. 1991). Those stakeholders are evaluated in terms of their potential to cooperate and to threaten (Savage et al. 1991). The diagnosis of a stakeholder’s potential to cooperate equates to the creation of a best-case scenario, whereas the potential to threaten is determined by the use of a worst-case scenario. Sub-criteria to examine the two potentials are the stakeholder’s ability, willingness and possibility to cooperate or to threaten. Based on these considerations stakeholders are classified according to the ordinate rates high/low potential to cooperate/threaten. To each of the resulting four groups a strategy ranging from involvement to defend is allotted (Savage et al. 1991). Differentiating stakeholders with respect to their potential to cooperate and to threaten is expedient since this way heterogeneous groups are distinguished. Another significant insight is the suggestion not pay less attention to supportive stakeholders than to opposing ones. However, it is questionable whether there is sufficient homogeneity within the four groups in order to derive appropriate strategies. Therefore, further differentiation of the stakeholders is advisable.

The stakeholder systematization developed by Polonsky builds upon the theory from Savage et al. The examination of the potential to cooperate and to threaten is extended by a third analysis criterion which is the potential to influence (Polonsky 1996). This is due to the idea that on the one hand stakeholders can directly articulate their requirements; on the other hand they may also motivate other stakeholders to take action (Polonsky 1996). The investigation of the potential to influence is a worthwhile addition to the model of Savage et al. since even stakeholders who have no direct impact on a company can be strategically very important because of their relation to other stakeholders.

The approach of Mitchell/Agle/Wood primarily contributes to stakeholders’ prioritization whereas the derivation of strategies is not the main focus (Mitchell/Agle/Wood 1997). It is based on the assumption that the attention of corporate management depends on three stakeholder attributes, namely the power, the legitimacy and the urgency of a stakeholder. The methodology of stakeholder prioritization suggested by Mitchell/Agle/Wood should
precede the analysis. By assigning a stakeholder to a priority group it is determined to what extent resources should be invested in response to the respective request.

As part of the approach by Freudenberg stakeholders are arranged in a sequence according to the three attributes knowledge, power and preferences, starting with stakeholders who have relevant knowledge, power and the same preferences as the company and ending with stakeholders who have exactly the opposite characteristics (Freudenberg 1999). Based on this order strategies are defined starting with a supportive strategy and ending with a defensive strategy. A problem of this approach is the separate examination of the attributes power and knowledge. Since the possession of relevant knowledge improves the balance of power in favor of the stakeholder, the two attributes are not independent (Picot/Freudenberg/Gaßner 1999; Freudenberg 1999). Otherwise the examination of power and preferences is effective.

Frooman developed a further stakeholder prioritization. It refers to resource dependency theory which indicates that companies may be dependent on stakeholders and vice versa on account of scarce resources (Frooman 1999). The relation of dependence determines whether the stakeholder directly or indirectly exerts influence on the company and whether resources are provided or withheld. The examination of dependency between the company and the stakeholders from both perspectives is of great importance since the comprehension of the stakeholders’ behavior increases and therefore a better adjustment of strategies becomes possible.

The approach of Johnson and Scholes is based on the examination of two attributes, namely the stakeholder’s interest in influencing business operations and his ability to enforce his preferences (Johnson/Scholes/Whittington 2008). It is considered who the most important supporters and opponents among the stakeholders are, whether the stakeholder requirements are in line with the company’s operations and which stakeholder positions should be preserved or modified. The applied analysis criteria are already familiar from previously described approaches (Mitchell/Agle/Wood 1997; Savage et al. 1991). What is new is that first strategies are arranged in a sequence from highest to lowest effort and subsequently they are assigned to the stakeholders depending on the priority group they belong to. First priority is given to stakeholders with the characteristics high interest in exerting influence and high ability to enforce their will, stakeholders with the opposite characteristics are deemed least important. A problem to consider is that the stakeholder’s interest in exerting influence is assumed to be equivalent to the stakeholder being displeased with the corporate strategy. Table 1 summarizes the main contents of the six appraised theories.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus</td>
<td>Consensus between company and influential stakeholders</td>
<td>See Savage et al.</td>
<td>Prioritization of stakeholders</td>
<td>Cooperation between company and influential stakeholders</td>
<td>Dependency between company and stakeholders</td>
<td>Prioritization of stakeholders to determine what effort should be made</td>
</tr>
<tr>
<td>Procedure</td>
<td>Arrangement of stakeholders from best-case to worst-case; Arrangement of strategies from involvement to defense</td>
<td>See Savage et al.</td>
<td>Formation of groups with identical attributes</td>
<td>Arrangement of stakeholders from supporters to opponents; arrangement of strategies from involvement to defense</td>
<td>Examination of the dependency between the company and stakeholders from both perspectives</td>
<td>Arrangement of stakeholders according to their importance; arrangement of strategies from highest to lowest effort</td>
</tr>
<tr>
<td>Analysis criteria</td>
<td>Potential to cooperate/threaten • Ability • Willingness • Possibility</td>
<td>Potential to cooperate/threaten/influence</td>
<td>Power, legitimacy, urgency</td>
<td>Knowledge, power, preferences</td>
<td>Resource dependency</td>
<td>Willingness and power to influence</td>
</tr>
<tr>
<td>Implications for an own analysis scheme</td>
<td>Potential to influence expedient analysis criteria; Same attention to supporters as to opponents</td>
<td>Potential to influence expedient analysis criteria</td>
<td>Prioritization should precede the analysis scheme</td>
<td>Power and preferences expedient analysis criteria; knowledge defined as a sub-criteria of power</td>
<td>Examination of dependency from the company’s and from the stakeholder’s perspective</td>
<td>Effort of the company should depend on the stakeholder’s importance</td>
</tr>
</tbody>
</table>

Table 1: The results of the appraisal of existing stakeholder-theories
3 Development of an systematic analysis scheme

3.1 The prioritization of the stakeholders based on the approach of Mitchell, Agle and Wood

As a first step of the analysis the stakeholders and their respective expectations should be arranged in accordance with their strategic relevance for the company in order to determine to what extent resources should be invested. For this purpose a slightly modified approach of Mitchell/Agle/Wood is used by examining the attributes power, legitimacy and urgency.

In accordance with the definition of power from Krüger (Krüger 1974) and Weber/Winckelmann (Weber/Winckelmann 2009) a stakeholder who is able to impose the own preferences against the company’s will can be referred to as powerful.

Legitimacy characterizes behavioral patterns that are considered as appropriate or preferable within social systems (Suchman 1995). Accordingly, non-legitimate stakeholder claims do not refer to a responsible corporate management. Consequently, they are excluded from further analysis.

Urgency prevails if a stakeholder ascribes great importance to his request and considers it as critical in terms of time (Mitchell/Agle/Wood 1997). As a result the following priority groups can be formed:

1. Power, legitimacy and urgency,
2. Power and legitimacy as well as urgency and legitimacy,
3. Legitimacy.

Stakeholders characterized by all three attributes have the highest strategic importance to a company whereas those that are exclusively legitimate are considered as least relevant. The strategic importance determines the effort of the respective strategy to be developed (Mitchell/Agle/Wood 1997). Furthermore the pressure on a company to take a position promptly in reference to a stakeholder request increases if the respective stakeholder is strategically of great importance (Mitchell/Agle/Wood 1997). Thus, the stakeholder prioritization provides significant information for an economically adequate expenditure. In addition similarly structured stakeholder requests are combined in groups. This way, complexity that results from a high number of stakeholders decreases.

3.2 The analysis criteria and the logic of the procedure

In this chapter the analysis criteria that are considered as expedient for the examination of stakeholder requirements are explained. The criteria were chosen based on the results of the review of the existing stakeholder theories. Furthermore the logical composition of the analysis criteria is set out. This way a theoretical framework for the analysis of stakeholder requirements is designed as an aggregation of systematically linked central questions. This “questionnaire” is directly connected to the stakeholder prioritization. It builds upon the examination of the attributes power, legitimacy and urgency and provides detailed information about the relation between the company and its stakeholders.
1) Does the stakeholder have direct or indirect power?
If the stakeholder prioritization provided the information that a stakeholder is able to impose his own will on the company, then the first question immediately comes to the conclusion that the stakeholder is powerful. In case a stakeholder has not been characterized as powerful it has to be checked whether he can exert indirect influence. Based on the definition of Polonsky indirect power is understood as the ability to motivate other stakeholders to become active and thereby exert influence on the company (Polonsky 1996). If direct or indirect power exits there is an incentive for the company to respond to the stakeholder’s claims in order to avoid economic damage in the form of financial losses or bad reputation (Polonsky 1996).

2) Are the interests of the company and the stakeholder homogeneous?
Following Freudenberg’s procedure (Freudenberg 1999) it has to be investigated whether the interests of the company and the stakeholder are homogeneous or if there are fundamental discrepancies in the target systems. This is crucial for further analysis since different strategies have to be designed for supporters and opponents.

3) Does the company have power?
A company has power if it is able to impose its own preferences on its stakeholders (definition of power from Weber/Winckelmann 2009). Power is not transitive, i.e. the fact that a stakeholder has power over a company does not necessarily mean that the company has power over the stakeholder and vice versa (Freudenberg 1999). For this reason it has to be examined whether unilateral or mutual dependence exists (Frooman 1999). The exception that neither party has power is also possible. The company’s power is of particular relevance since power comes along with responsibility. Responsibility exists if there is a free choice between at least two courses of action and if the stakeholder’s utility is influenced by these options. According to the definition of power explained above, the company’s power is the ability to influence the stakeholder’s utility. Consequently the ability to exert influence on the stakeholder’s utility comes along with responsibility which constitutes a moral incentive to comply with the stakeholder requirement.

By analyzing the proportion of power it can be assessed to what extent the company should be motivated to comply with a stakeholder’s request. If a stakeholder is powerful, it is on the company’s behalf to prevent an undesirable exercise of influence from this particular group or person (Janisch 1993). The fulfillment of the respective request is considered in order to avoid economic damage. If the company is powerful, a moral obligation arises. Depending on the fact whether the proportion of power is unilateral or bilateral, the motives “economic calculations” and “moral obligation” can exist individually or together.

The analysis presented above does not include an offset regarding the company’s and the stakeholder’s power. The absolute power is considered rather than the relative power in proportion the power of the other party (Krüger 1974). The reason for not identifying the more powerful party is the fact that it is in many cases very complex or even impossible to accurately determine a party’s power. If a stakeholder is able to influence other stakeholders it is particularly complicated. For instance, if a stakeholder has the possibility to interfere with the media this unquestionably constitutes potential power. However it is hard to estimate what exact reactions can be provoked through the media (Zühlendorf 2002). So instead of calculating the net power and thereby integrating an unconfident parameter in the requirement analysis it is assumed that the two parties have approximately compa-
rable negotiating positions if the proportion of power is bilateral. The powerful party is presumed to dominate negotiations if there is a unilateral proportion of power (Groll 2004).

4) Are joint actions practicable?
Theoretically a company can choose between three alternative ways to respond to a stakeholder’s request. It can fulfill the request, it can reject the request or it can work on a solution together with the stakeholder (Carroll/Buchholtz 2006). The pretense of fulfillment is not a suitable option since it risks long-term profit and the company’s continuance as a going concern (Meffert/Rauch/Lepp 2010). From the company’s point of view the most desirable option is to join action with the stakeholder whenever a request cannot be ignored. Joint actions entail the highest potential for an effective and efficient fulfillment of the request (Meffert 2008). By giving support the stakeholder reduces the necessary efforts of the company (Leitschuh-Fecht 2005). Furthermore the stakeholder can generate additional values for example by passing on know-how (Dahm/Thorenz 2010). For the stakeholders themselves their involvement can induce more satisfaction since they are enabled to better comprehend and influence measures taken by the company (Wunderer 2006). In addition both parties gain certainty with respect to the comportment of their counterpart (Gilbert 2007). Whether joint actions are practicable is dependent on the proportion of power, i.e. the relationship of dependence between the company and the stakeholder. In the following the company’s perspective is taken. According to the constitution of the relationship of dependence it is differentiated between the potential to join actions, the option to join actions and the willingness to join actions. In case of interdependency the potential to join action is examined, which means that the association is accomplished if both parties agree with it. Their willingness depends on whether they expect their utility to increase due to the association as well as on their mutual trust (Friedman/Miles 2002; Dahm/Thorenz 2010). In case of a unilateral relationship of dependence it can be assumed that the inferior party would always benefit from joint actions since this way the comportment of the superior party can be supervised to at least some extent. Hence, the inferior party relies on the superior party to offer an association. Therefore, the option to join actions is checked from the company’s point of view if the dependency relationship is unilateral and the stakeholder represents the powerful party. On the other hand the company’s willingness to join actions is verified if the company is the superior one within a unilateral dependency relationship. In which manner actions can be joint depends on whether the company’s and the stakeholder’s interests are homogeneous. Generally the distinction of two types of joined actions can be distinguished: cooperation (4a) and collaboration (4b).

4a) Cooperation
A cooperation between the company and a stakeholder is possible if their interests are homogeneous. The cooperation is a type of joint action from which the parties involved expect their utility to increase and are therefore willing to relinquish certain degrees of freedom (Lubritz 1998). The achievements of one party simultaneously enhance the achievements of the other party (Tries/Reinhardt 2008).

4b) Collaboration
A collaboration is the voluntary association with persons, groups or institutions who generally represent interests other than one’s own. Within a clearly defined range of topics a consensus is devised so that joint actions are useful for all parties involved (Schmalz 2007).
3.3 The aspects of the strategy development

Strategies are a set of consciously chosen, well considered guidelines that determine future decisions (Mintzberg 1978). Based on the information that is obtained by using the analysis criteria, differentiated strategies for dealing with stakeholder requirements can be derived. Below aspects of strategy development that are supposed to be considered are enumerated.

3.3.1 Recognizing supporters and opponents

The most important prerequisite for the development of differentiated strategies is the knowledge of the stakeholder attitude (Savage et al. 1991). Supporters are all those stakeholders who pursue the same objectives as the company and deem their interests represented by the company’s policy (Savage et al. 1991). They may contingently require a more rapid implementation of certain measures or more extensive activities in a particular subject area but they do not take a stand against the company (Savage et al. 1991). On the contrary opponents are stakeholders who represent other interests than the company’s (Savage et al. 1991). Either they currently aim for a modification of the company’s policy or they have the potential to do so in the future (Savage et al. 1991).

3.3.2 Determining the optimal time for strategic measures

Depending on the priority of stakeholders and the likely consequences of ignoring their claims three alternative dates for the initiation of strategic measures are considered. The respective three strategies are proactivity, adaptivity and reactivity (Freeman 2010).

If the occurrence of a particular event is expected or desired and if this event should be influenced in advance, than the term proactivity is used to denote the strategy. The planning horizon of proactivity is intermediate to long-term (Freeman 2010). The adaption to current events for which no precautionary measures have been taken in the past is called adaptivity. The planning horizon of adaptivity is near to intermediate term (Freeman 2010). If the occurrence of a specific event is expected or considered as possible and if precautions are deliberately neglected, this observant attitude is called reactivity. The planning horizon is intermediate to long-term (Freeman 2010).

<table>
<thead>
<tr>
<th>Date of the event</th>
<th>Proactivity</th>
<th>Adaptivity</th>
<th>Reactivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attitude of the company</td>
<td>In the future</td>
<td>In the present</td>
<td>In the future</td>
</tr>
<tr>
<td>Planning horizon</td>
<td>Managing/ anticipating</td>
<td>Accommodating</td>
<td>Observant</td>
</tr>
<tr>
<td>Planning horizon</td>
<td>Intermediate to long-term</td>
<td>Near to intermediate term</td>
<td>Intermediate to long-term</td>
</tr>
</tbody>
</table>

Table 2: The distinguishing features of proactivity, adaptivity and reactivity

3.3.3 Choosing a general attitude

The choice of an attitude determines the way of dealing with a requirement. It is distinguished between the integrative, the defensive and the offensive strategy as well as the hybrids integrative-defensive and integrative-offensive.
The integrative strategy aims at an association between the company and the stakeholder (Savage et al. 1991). It is based on a consensus between both parties and an approximately equally split benefit. In case of homogeneous interests the proportion of power is insignificant since a consensus already exists so that a fair distribution of utility can be easily negotiated (Hill/Fehlbaum/Ulrich 1994). If interests are heterogeneous it is, however, more difficult to define a consensus and to negotiate an equal distribution of utility (Hill/Fehlbaum/Ulrich 1994). Hence, an exclusively integrative strategy in relation to heterogeneous interests is only possible if a bilateral proportion of power exists and consequently both parties are equipollent negotiation partners. On the contrary, if the proportion of power is unilateral either the integrative-defensive or the integrative-offensive strategy is applicable.

As part of a defensive strategy a request is partially or totally satisfied (Savage et al. 1991). This strategy presupposes that the stakeholder has power and disapproves of an association. Regardless of whether the company is powerful, too, it has at least an economic motivation to comply with the request (compare to 2.2, question 1.). A defensive strategy implies the acceptance of dependency (Freeman 2010). The ambition is to minimize the costs of complying with the request (Kotter 1979). If there are heterogeneous interests a solution is first tried to be found by negotiating. Should negotiations fail concessions with reference to single aspects of the request or even to the entire request have to be made by the company. From the company’s point of view the complete agreement is the least favorable alternative if interests do not match (Jost 2000). On the contrary the request can be accepted promptly if interests are homogeneous.

An offensive strategy signifies that the company refuses to comply with a stakeholder request. Possible manifestations are ignorance or rejection (Tries/Reinhardt 2008). An offensive strategy is only appropriate if interests are heterogeneous, at least one party refuses joint actions and if the company’s refuse is economically and morally justifiable. The proportion of power can be unilateral in favor of the company as well as bilateral. The exception that none of the parties has power is also possible. However, if the stakeholder is the only powerful party then there is a significant economic incentive for the company to comply with the request (Coff 1999). In this case an offensive strategy is unapt.

In addition to these three basis strategies also two hybrids are possible. The integrative-defensive strategy is chosen whenever an association is supposed to be established between a powerful stakeholder and a powerless company. In order to encourage the stakeholder to join actions the company has to create incentives (Freeman 2010). Therefore, the stakeholder is consulted in case of cooperation. In this context the term consultation implies that the company inquires about the stakeholder’s opinion before making decisions, that it confers with the stakeholder and that it is willing to oblige the stakeholder if disaccords occur (Achleitner 1985). Thus the stakeholder gets the possibility to influence the process and the result of the cooperation (similar Friedman/Miles 2006). With regard to collaboration there is in general less trust between the two parties (Savage et al. 1991), which is why competences concerning the association have to be distinctly defined right from the beginning. On this account the company has to make concessions to the stakeholder in advance.

In contrast an integrative-offensive strategy is applied if an association is supposed to be established in case of an inverse proportion of power. If the company is powerful in opposition to the stakeholder then the company is in
<table>
<thead>
<tr>
<th>Focus</th>
<th>Integrative Strategy</th>
<th>Defensive Strategy</th>
<th>Offensive Strategy</th>
<th>Integrative-defensive Strategy</th>
<th>Integrative-offensive Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Association</td>
<td>Acceptance of depend-</td>
<td>(Part) disaffirmation</td>
<td>Association</td>
<td>Association</td>
</tr>
<tr>
<td></td>
<td>(mutual agreement/</td>
<td>ency; minimization of</td>
<td>of the request</td>
<td>(stakeholder domi-</td>
<td>(company dominates)</td>
</tr>
<tr>
<td></td>
<td>equally split benefit)</td>
<td>costs of complying</td>
<td></td>
<td>nates)</td>
<td></td>
</tr>
<tr>
<td>Proportion of power</td>
<td>Interdependency</td>
<td>Powerful stakeholder</td>
<td>Powerful company,</td>
<td>Unilateral proportion</td>
<td>Unilateral proportion</td>
</tr>
<tr>
<td></td>
<td></td>
<td>or interdependence</td>
<td>interdependency, or</td>
<td>of power in favor of</td>
<td>of power in favor of</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>the exception “no</td>
<td>the stakeholder</td>
<td>the company</td>
</tr>
<tr>
<td>Interests</td>
<td>Homogeneous or het-</td>
<td>Homogeneous or het-</td>
<td>Homogeneous or het-</td>
<td>Homogeneous or het-</td>
<td>Homogeneous or het-</td>
</tr>
<tr>
<td></td>
<td>erogeneous with lim-</td>
<td>erogeneous</td>
<td>erogeneous</td>
<td>erogeneous with</td>
<td>erogeneous with</td>
</tr>
<tr>
<td></td>
<td>ited consensus</td>
<td></td>
<td></td>
<td>limited consensus</td>
<td>limited consensus</td>
</tr>
<tr>
<td>Possible configurations</td>
<td>Cooperation, collab-</td>
<td>Negotiation, con-</td>
<td>Ignorance or rejec-</td>
<td>Company consults the stake-</td>
<td>Stakeholder consults</td>
</tr>
<tr>
<td></td>
<td>oration</td>
<td>cessions, compliance</td>
<td>tion</td>
<td>holder/ makes concessions</td>
<td>the company/makes concessions</td>
</tr>
</tbody>
</table>

Table 3: The distinguishing features of the basis strategies and the hybrids

prove of a collaboration.
It might be difficult to comprehend the purpose of a defensive, offensive or integrative-offensive strategy with respect to stakeholders who demand a responsible business policy. For this reason it should be emphasized once more that a complete fulfillment of all stakeholder requests is hardly possible since the requests might be conflictive to each other or might be contrary to the company’s objectives (Hungenberg 2000). As explained above the decision about how to handle a request is dependent on the proportion of power and the resulting economic and moral incentives. The application of the analysis scheme is going to prove that definite strategy recommendations can be deduced after compiling this information. Nevertheless there remain some constellations that cannot go without individually made economic and moral decisions. Whereas economic decisions are based on clear guidelines it is difficult to offer recommendations for moral decisions. A moral decision is based on social conventions (Gert 2008). In the business context a moral decision will always reflect the value system of the management, i.e. the subjective perception of morality. Thus it is individualized (Steiner 1975). However, it can be stated that an overriding importance should be given not only to economic but also to moral decisions because only enduringly profitable companies are in the condition to generate long-lasting utility for their stakeholders (Pümpin 1989). Hence, the decision is ideally based on a cost-benefit-analysis (Committee for Economic Development 1971). If the sum of the stakeholder’s and the company’s benefits exceed the costs for the company or if those two parameters equate each other and if the costs for the company are moderate in addition to that, then the stakeholder’s demand can be met.

3.3.4 Defining the strategy for short to intermediate-term monitoring

The relation between the company and stakeholders is generally built to last (Janisch 1993). It is usually not ended by the company fulfilling or rejecting a request (Müller-Stewens/Lechner 2005). Therefore, the development of stakeholders and their requests should be observed by the company (Janisch 1993). Dependent on the stakeholder characteristics it might be appropriate to monitor their attitude permanently or to check the occurrence of crucial events regularly (Müller-Stewens/Lechner 2005). There might also be stakeholders who temporarily do not have to be monitored at all (Frooman 1999). They are not reintegrated in the monitoring process until environmental changes occur that might affect their attitude.

Monitoring is a process of observing that is applied in order to systematically pursue the short- to intermediate-term development of a stakeholder (Hill/Jones 1992). The aim is to be able to react at an early stage if an undesirable development or crucial events occur (Fahey/Narayanan 1986). A crucial event could be for example a powerful stakeholder representing a legitimate request who develops urgency. In the following, two means are presented that can enhance the pursuit of the stakeholder’s development: the reputation research and the stakeholder-dialogue.

A reputation research is a media analysis based on reputation indicators that is applied in order to gain information about the stakeholders’ attitude as well as their knowledge and their emotions concerning the company (Kuhn/Ruff 2007). It is advisable to apply a reputation research in reference to stakeholders who have a deprecatory attitude towards the company and measures have been taken in order to effect a more positive relationship (Wiedmann/Buxel 2004; Schäfer 2006). In those cases a reputation research is useful since a direct communication might be problematic due to conflicting positions (Bruhn 2010).
A stakeholder-dialogue includes an interaction between the company and the stakeholder and is consequently more than just a monitoring instrument. Nevertheless this kind of dialogue can greatly improve the monitoring process which is why it is presented in this context. The stakeholder-dialogue necessitates communication channels that work in two ways, i.e. from the company to the stakeholders and the other way round (Kent/Taylor/White 2003). Examples are web-based discussion forums and regular discussions with representatives of the company and the stakeholders. The communication with the stakeholders can improve the comprehension of their requests significantly. The stakeholders’ attitudes towards subjects related to the company and alterations of those attitudes become more transparent (Karmasin 2007). Beyond that, the communication can be a promoter for innovative ideas (Friedman/Miles 2006). The stakeholder-dialogue should be applied among stakeholders who are interested in supporting the company. Furthermore it can also be applied among opponents in order to converge conflicting positions (Deix 2005).

For reasons of efficiency the complexity and the effort of a monitoring strategy is adjusted to the characteristics of the respective stakeholder (Zerfaß 2007). The stakeholder prioritization is one determining factor for the intensity of monitoring. In addition to that an individual case differentiation is necessary. In the following, three intensities of monitoring are presented, namely continuous, periodic and aperiodic monitoring.

If a high profit or loss potential is determined related to a certain group of stakeholders by implementing the analysis of the stakeholder requirements, then the respective group should be monitored continuously so that an adequate assessment of the stakeholder’s attitude and request is available at any time (Fahey/King 1977; Fahey/King/Narayanan 1981). Ideally the whole environmental subsystem to which the stakeholder belongs is focused for this purpose (Fahey/King 1977).

A periodic monitoring is appropriate if an average profit or loss potential is determined (Fahey/King 1977; Fahey/King/Narayanan 1981). The durability of a period is efficient if the company has just enough time to react after verifying the occurrence of a crucial event. The focus of the periodic monitoring is on selected crucial events that might have happened during the previous period (compare to Scholz 1987). The results are documented and updated at the end of the following period.

If there is presently no profit or loss potential related to a stakeholder but the possibility of such a development does exist then the respective stakeholder should be monitored aperiodically (Fahey/King 1977; Fahey/King/Narayanan 1981). The stakeholder’s attitude and possible alterations of the request are only examined if indications for a change exist (Scholz 1987). The perception of relevant signals initiates an ad-hoc study.
### Table 4: The distinguishing features of the monitoring intensity

<table>
<thead>
<tr>
<th>Reason for monitoring</th>
<th>Continuous</th>
<th>Periodical</th>
<th>Aperiodical</th>
</tr>
</thead>
<tbody>
<tr>
<td>Awareness of a high profit or loss potential</td>
<td>Awareness of an average profit or loss potential</td>
<td>No current awareness of a profit or loss potential but possibility of such a development in the future</td>
<td></td>
</tr>
<tr>
<td>Focus</td>
<td>Environmental subsystem of the stakeholder</td>
<td>Set of selected events</td>
<td>Special events</td>
</tr>
<tr>
<td>Catalyst</td>
<td>None, permanent monitoring</td>
<td>End of a specified time period</td>
<td>Perception of indications for a change</td>
</tr>
<tr>
<td>Basis for decision-making</td>
<td>Permanent, systematic monitoring</td>
<td>Regularly updated studies</td>
<td>Irregular ad-hoc studies</td>
</tr>
</tbody>
</table>

**Source:** Referring to Scholz 1987.

### 4 The application of the analysis scheme

In the following, the analysis scheme is theoretically applied to the first priority group, i.e. stakeholders with power, legitimacy and urgency in order to exemplify the practical procedure. Additionally several concrete examples are cited to illustrate the strategies explained. For a better orientation the analysis paths in the accompanying illustration are consecutively numbered. The strategies are arranged accordingly. The application of the analysis scheme to the second and the third priority group is based on the same logic.

The urgent request of a strategically important stakeholder represents a crucial event. Consequently, the company has to act at short notice. Considering the optimal time for taking measures the strategy is thus “adaptivity” which applies to every stakeholder belonging to the first priority group. Any other differences in the strategies resulting from the various possible parameter values of the analysis criteria are explained below.

1) **Homogeneous interests, interdependency, potential to cooperate**

This group consists of the main supporters, which is why the respective stakeholders - amongst others - belong to the most important stakeholders of the company. Hence, an integrative strategy in the form of cooperation is chosen. This kind of cooperation has the potential to trigger innovative ideas. The intention related to an innovation strategy is to create value for the stakeholder as well as the company and to adapt the corporate strategy to recent environmental conditions (Eschenbach/Eschenbach/Kunesch 2003). In order to promote the cooperation a continuous dialogue with the stakeholder is established. Furthermore a continuous monitoring is exercised so as to learn about each of the stakeholder’s developments isochronally. E.g., employees call for compatibility of work and private life. Companies increasingly recognize the value of loyal, motivated employees as well as the risk of skill shortages and therefore provide measures to advance work-life-balance like part-time-models, workplace nurseries and time-off for further education (Jurczyk 2004). If those offers are exclusively devised by the
management, this corresponds to strategy 2b). However, if management and employees cooperate to develop strategies enhancing work-life-balance, this equals strategy 1) which comes with the advantage of a better comprehension regarding the requirements of the employees. Furthermore creative solutions will be promoted. This way, typical obstacles such as high costs, organizational effort and lack of capacity (Clutterbuck 2003) can possibly be overridden.

2) Homogeneous interests, interdependency, no potential to cooperate

This constellation is similar to the preceding one but differs in the aspect that at least one party is unwilling to cooperate. Due to homogeneous interests the respective stakeholders are supporters but have low potential for blocking. Consequently, there is a minor risk that they become opponents. In this case either an integrative (2a) or a defensive strategy (2b) can be chosen.

2a) If a cooperation is desirable from the company’s point of view short-term measures are taken to enhance an integrative strategy. Since interests are homogeneous the most likely obstacle for a cooperation is a lack of trust between the company and the stakeholder (Schloter 2004). In those cases measures for trust building have to be taken such as indicating successful cooperation projects in the past (Achleitner 1985). A continuous monitoring as well as a continuous dialogue are applied.

2b) If it is the company refusing to cooperate a defensive strategy is appropriate. Due to the homogeneity of interests the stakeholder’s request can be accepted. The stakeholder’s possible development towards an opponent has to be detected and prevented betimes yet it is relatively unlikely so that a periodic monitoring and a periodic dialogue are adequate.

3) Homogeneous interests, no interdependency, option to cooperate

If the company is dependent on the stakeholder’s willingness to cooperate, the stakeholder is consulted regularly in order to make the association more attractive. Hence, the strategy is integrative-defensive and the respective stakeholders are supporters. On the one hand the situation is noncritical, on the other hand stakeholders are highly important which is why monitoring and dialogue are both periodically accomplished.

4) Homogeneous interests, no interdependency, no option to cooperate

Stakeholders who have the same interests as the company but do not want to cooperate and who are additionally the only party having power can be described as supporters with high blocking potential. There is a significant risk that they become opponents. Two strategies are suitable to counteract this development.

4a) If a lack of trust appears to be the main obstacle from the stakeholder’s perspective, trust building measures have to be taken in order to eventually implement an integrative-defensive strategy in the form of a cooperation with consultation of the stakeholder. A continuous dialogue fosters trust building and in the same time success can be verified by monitoring continuously.

4b) If strategy 4a) seems not promising a defensive strategy shall be taken. This is unproblematic due to the homogeneity of interests. Because of the stakeholder’s critical positioning between supporter and opponent a continuous monitoring as well as a continuous dialogue should be implemented. In addition to that a periodic reputation research can help to detect a possible negative development at an early stage.

Regardless of whether strategy 4a) or 4b) is chosen the homogeneity of interests must be preserved and a development of the stakeholder towards an opponent attitude has to be prevented. In this case it is appropriate to ana-
lyze the stakeholder’s target system in detail. Stakeholders pursue a superior target which consists of generating benefits by means of the company (Janisch 1993). For example it might be the employees’ superior target to increase their quality of life whereas customers seek to satisfy their needs and suppliers intend to ensure their existence and their prosperous development (Janisch 1993). Those superior targets can be divided into subordinated targets which are mainly intermediate-term but also long- or short-term targets. Reverting to the example of the employees the superior target “increase the quality of life” could be broken down to the subordinated targets “financing of subsistence” and “self-realization”. Necessary information for subdividing the superior target can be gained by interviewing the stakeholders, analyzing their environment or making use of expertise. After having identified the subordinated targets they should continuously be checked in order to ensure a sufficient fulfillment. Thereby the problem to measure stakeholder satisfaction arises (Janisch 1993). An ordinal measurement, i.e. the differentiation between very, moderately and not satisfied stakeholders is realistic and reasonable considering the effort. More important than the measurement of individual values is, however, to develop sensitivity for the stakeholder’s state of mind.

5) Heterogeneous interests, interdependency, potential to collaborate
Stakeholders with the characteristics “heterogeneous interests”, “interdependency” and “potential to collaborate” are referred to as opponents with high supporting potential. An integrative strategy in the form of collaboration should be implemented. The focus is on the joint search for solutions that contribute to the company’s as well as to the stakeholder’s utility (Janisch 1993). Thus, innovative ideas and mutual learning processes can be initiated (Janisch 1993). Since an agreement between the two parties is not yet reached, the desired development of the stakeholders to supporters is critical and should therefore be verified by a continuous monitoring and a periodic reputation research. Due to heterogeneous interests an exchange between the company and the stakeholder is problematic (Bruhn 2010). As a communication can significantly support a collaboration a dialogue should be fostered.

6) Heterogeneous interests, interdependency, no potential to collaborate
The existence of target divergence and interdependency in combination with a lack of acceptable alternatives characterizes a conflict (Tries/Reinhardt 2008). Stakeholders of this category are referred to as opponents. Either a conflict avoidance strategy (6a) or a conflict resolution strategy (6b) can be implemented.
6a) The avoidance of the conflict can only be realized by choosing a defensive strategy. First an agreement is tried to be reached by negotiating. If this fails, concessions have to be made. In case this still does not lead to reconciliation the company has to comply with the requirement without restrictions. Negotiations are alleviated by analyzing the stakeholder’s target system. If the superior target and the subordinated targets are known it might be possible to suggest alternatives that are acceptable from the stakeholder’s point of view. This way the company might be able to foster the stakeholder’s superior target without directly complying with the requirement. Because of the interdependency between the company and the stakeholder, the company should usually not have to comply with the entire expectations. However aside from the economic motivation to find a cost-efficient solution there is also the moral motivation to live up to the company’s power. Hence, economic as well as moral aspects have to be considered before deciding to what extent the stakeholder’s request should be fulfilled. The development of the opponents is important but not as crucial as the main opponents’ development described above so that a periodic monitoring is adequate.
6b) Since not only the stakeholder but also the company hold power there is also the possibility of conflict resolution. In this case an offensive strategy is implemented by rejecting the stakeholder’s request. Again it is important to verify the economic and moral justification. In reference to the monitoring strategy there is no deviation from strategy 6a).

7) Heterogeneous interests, no interdependency, option to collaborate
Stakeholders belonging to this category have the sole power. They do not pursue the same interests as the company however, they are willing to collaborate. Hence, they are referred to as opponents with minor supporting potential. Appropriate is an integrative-defensive strategy which means that the company has to make concessions. In order to enhance the stakeholders’ development towards supporters a dialogue should be sought. Furthermore a periodic monitoring is advisable. E.g., the fast-food-restaurant chain McDonald’s repeatedly confederated with protesting environmentalists in order to conjointly develop innovative packaging concepts (Prewitt 1991; Polonsky 1995).

8) Heterogeneous interests, no interdependency, no option to collaborate
Heterogeneous interests, the company’s dependency on the stakeholder and the nonexistence of an option to collaborate characterize the eighth category consisting of the main opponents. Only a defensive strategy is appropriate for this constellation. The first attempt is to lead a negotiation in order to minimize the costs of complying as in strategy 6a). If this fails concessions are made. The least desirable solution is to comply with the request without restrictions. Due to the stakeholders’ high strategic importance they are continuously monitored until the relationship ends.
### Illustration 1: The analysis scheme for stakeholders with power, legitimacy and urgency

<table>
<thead>
<tr>
<th>Number</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stakeholder designation</strong></td>
<td><strong>Main supporter</strong></td>
<td><strong>Supporter with minor blocking potential</strong></td>
<td><strong>Supporter</strong></td>
<td><strong>Supporter with high blocking potential</strong></td>
<td><strong>Opponents with high supporting potential</strong></td>
<td><strong>Opponents</strong></td>
<td><strong>Opponents with minor supporting potential</strong></td>
<td><strong>Main opponents</strong></td>
</tr>
<tr>
<td><strong>General attitude (superior strategy)</strong></td>
<td>Integrative: cooperation (potential for an innovative strategy)</td>
<td>a) Integrative: (in case of lacking trust: trust building measures)</td>
<td>b) Defensive: compliance with the request</td>
<td>Integrative-defensive: cooperation with consultation of the stakeholder</td>
<td>a) Integrative-defensive: trust building measures</td>
<td>b) Defensive: compliance with the request</td>
<td>Integrative-defensive: collaboration (potential for an innovative strategy)</td>
<td>Integrative-defensive: collaboration with concessions made by the company</td>
</tr>
<tr>
<td><strong>Further analysis</strong></td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>Analysis of the target system</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
</tbody>
</table>

**Legend:** Y: Yes; N: No
Embedding the analysis scheme into a broad stakeholder-management strategy

The presented analysis scheme meets the demand of a holistic approach if it is completed by the following elements: The stakeholder prioritization has to precede a stakeholder identification. For this purpose it can be referred to the heuristic concept of stakeholder identification developed by Scholz (Scholz 1987). Subsequent to stakeholder identification the analysis scheme is applied as explained above in order to evaluate the current situation. Eventually, future developments should be anticipated. To gather information it is recommendable to take two alternative perspectives with reference to the individual analysis elements. To begin with, the inside-out approach is applied as part of the stakeholder identification and the prioritization, i.e. starting from the company the environment is scanned for information that is relevant for the analysis scheme (Fahey/Narayanan 1986). By contrast, the outside-in approach is applied as part of the anticipation of future developments. That means that the company’s environment is omnidirectionally scanned. A relation between the company and the newly gained information is subsequently created. Clues for relevant search directions can be provided by the inside-out approach. On the other hand particular events that initiate aperiodical monitoring can be perceived by the outside-in approach. Consequently, the inside-out and the outside-in approach reciprocally provide input to each other. Therefore the elements stakeholder identification, stakeholder prioritization, analysis scheme and anticipation of future developments do not necessarily have to be applied in the presented order. Rather, the sequence is determined by the information gained as part of an analytical element. Thus, a cycle is created consisting of acquiring, analyzing and processing information. As a result a holistic impression of the stakeholder requirements is obtained.
6 Conclusion

In this paper an analysis scheme for the holistic appraisal of stakeholder demands on a responsible corporate management was developed with recourse to selected existing approaches. In particular the analysis criteria power, homogeneity of interests, potential to influence and willingness to join actions were deemed appropriate and were therefore integrated in the analysis scheme. Furthermore the methodology for stakeholder prioritization developed by Mitchell/Agle/Wood was slightly modified and adopted as an analytical element preceding the analysis scheme.

The presented methodology is valuable since it systematizes the examination of stakeholder requests. It is a purposeful and coherent approach instead of isolated measures. The results of the analysis are logically connected to the strategies to be applied, which ensures the effectiveness of CSR policies as well as the efficiency of the invested resources. By embedding the analysis scheme in the inside-out and the outside-in approach a holistic approach in the form of a cycle comprehending the acquisition, the analysis and the processing of information is created.

Nevertheless it has to be acknowledged that the analysis scheme reaches limits if individual circumstances or unusual information have to be evaluated. Therefore, a systematic procedure has to go along with the company’s sensitivity with regard to their stakeholders.

Since the focus of this paper was on the development of the analysis scheme the preceding and subsequent elements of the holistic approach were not presented in detail. This is viable because papers about the respective techniques are already available. Thus, this paper concentrates on the new idea to combine existing approaches. The concept is based on theoretical consideration which is why further research with reference to the practical implementation is necessary. It is possible that especially the acquisition of information comes along with difficulties that are not yet conceivable. Furthermore, it might be expedient to adjust strategy recommendations to the company’s size, legal form, industry, etc. For this reason further research should focus on the feasibility of the developed methodology.
References


22


