HOW IMPORTANT ARE STAKEHOLDER RELATIONSHIPS?

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ABSTRACT

The importance of organizational-stakeholder relationships has and continues to be of interest in the organizational studies literature. The relevance of this topic is even greater given the recent governance failures involving Enron, Tyco, and WorldCom. Indeed, an excessive emphasis on stockholders is blamed for the neglect of other legitimate stakeholder groups. We should acknowledge that the central focus of studying any organizational relationship is the establishment, development, and maintenance of relationships between exchange partners (Morgan & Hunt, 1994). This study investigates the determinants of stakeholder relationship importance and the role it plays in determining whether relationships will continue. For managers, these results suggest that an organization's ability to develop and maintain strong relationships with their salient stakeholder groups improves the chance that relationships will continue.

INTRODUCTION

What determines the importance of stakeholder-organization relationships? The notion of "paying attention to key stakeholder relationships" (Freeman, 1999: 235) is and has been a major theme in the strategic management literature. In fact, superior stakeholder satisfaction is critical for successful companies in a hypercompetitive environment (D'Aveni, 1994). Empirical research has begun to investigate what determines the success or failure of relationships between exchange partners. This has been accomplished by examining both the characteristics of the organization as well as the specific stakeholder groups and the nature of the interaction between them (Pfeffer, 1981; Jensen & Meckling, 1976; Morgan & Hunt, 1994; Williamson, 1975, 1985; Parsons, 2001). An assumption has been made in much of the empirical and conceptual work is that developing and maintaining relationships are desirable goals for both the stakeholder and the organization (Dwyer, Schurr & Oh, 1987; Wilson, 1995). However, absent from much of the stakeholder management literature is a discussion of when relationships should be important.

This paper presents one part of an overall research stream on the relationships between organizations and their stakeholders, the development and maintenance of these relationships, and the impact of these relationships on an organization's strategies when dealing with their stakeholder groups. This study specifically focuses on three stakeholder groups: customers/clients, employees and suppliers/distributors. Porter (1980) recognized the importance of these stakeholder groups when he formulated his "Five Forces" model of competition, which included the bargaining power of customers and the bargaining power of suppliers. Due to the nature of the study, stockholders/owners were not included in this study. Stockholders are among the most important stakeholder groups. Collecting the type of data from this group needed for the study may have been problematic for several reasons. The nature of stockholder-organizational relationships can be very dynamic. A stockholder may buy and sell ownership in an organization within a period of minutes, thus making the measurement of the relationship with an organization almost impossible. Secondly, it may be very difficult to access information pertaining to a

specific stockholder. Lastly, due to the nature of the relationship, any information gathered from a stockholder may not have been relevant to this study.

Knowing what variables contribute to the success of relationships with stakeholder groups could have a beneficial effect on a firm's strategic actions. Therefore, the goal of this research was to determine what variables contribute to the importance of the organization-stakeholder relationship. This research helps strategic managers decide if they should promote stakeholder relationship strategies as effective managerial tools for their organizations. This research will also aid managers in identifying to which stakeholders the firm should cater.

CORPORATE-STAKEHOLDER RELATIONSHIPS

Stakeholder theory (Donaldson & Preston 1995; Evans & Freeman 1988; Freeman, 1984) and empirical research (Clarkson 1995) indicate that companies do explicitly manage their relationships with different stakeholder groups. Donaldson & Preston (1995) point out that although this is descriptively true, companies appear to manage stakeholders for both instrumental (i.e., performance based) reasons and, at the core, normative reasons. Building on the work of others, Clarkson (1995) defines primary stakeholders as those "without whose continuing participation, the corporation cannot survive as a going concern," suggesting that these relationships are characterized by mutual interdependence. He includes here shareholders or owners, employees, customers, and suppliers, as well as government and communities. The "web of life" view (Capra 1995) envisions corporations as fundamentally relational, that is, as a "system of primary stakeholder groups, a complex set of relationships between and among interest groups with different rights, objectives, expectations and responsibilities" (Clarkson, 1995: 107).

Ford (1980) suggests that companies pursue relationships with other companies to obtain the benefits associated with reducing their costs or increasing their revenues. By entering into relationships, organizations hope to gain stakeholder satisfaction and loyalty while stakeholders look for quality (Evans & Laskin, 1994). There may be negative implications associated with pursuing relationships as well. Stakeholders may forego better exchange alternatives in the future because of their commitment and loyalty to a particular organization (Han, Wilson, & Dant 1993). They may not be willing to give up the benefits associated with the relationship even if they could reduce operating costs by dealing with another organization. Also, if an exchange partners represents a major portion of the other's business, there may be a risk of overdependence due to a lack of diversification (Han, Wilson, & Dant, 1993).

The purpose of this research was to determine when stakeholder relationships are important. We assessed relationship importance by asking stakeholders to rate the importance of holding a stake in a particular organization. There are many dimensions of stakeholder-organization interactions that may play a role in determining when relationship strategies are important or appropriate. We used situational variables and inherent risk variables as the primary determinants of relationship importance. Situational variables include favorability of the situation, type of product offering, amount of service, availability of substitutes, and frequency of contact between the organization and the stakeholder. Inherent risk is the risk associated with specific situations due to the nature of the exchange relationship (Bettman, 1973). These would include financial risk, performance risk, and termination costs. All our constructs were derived from the extant literature.

METHOD

This research was conducted in three phases. The first phase consisted of personal inter views with members of top management teams. Since relationships between the organization and key stakeholder groups evolve over time, it was important to understand the development of these relationships. The purpose of this phase was to explore issues that are important to the stakeholder management process, to understand how the process works, and to confirm that the proposed conceptual framework addresses the relevant issues. Qualitative methods, such as interviews, are "highly appropriate in studying process because depicting process requires detailed description" (Patton, 1990: 5). Personal interviews were conducted with three panels for a total of sixteen members of top management groups. The first panel included representatives of the following areas: government, banking, brokerage, industrial equipment leasing, and a national stock exchange. The second panel consisted of representatives of the investment, publications, logistics, banking, petrochemicals, and pharmaceuticals industries. The third panel consisted of representatives of a non-profit organization and a pharmaceutical firm. The respondents represented the companies that agreed to forward copies of the survey to the key stakeholder groups identified in this study. These organizations provided lists of key customer groups, key suppliers/distributors, and employees, and we randomly chose survey respondents from that list.

The second phase of this research consisted of a survey sent to organizational stakeholders, specifically customers, employees, and suppliers/distributors. The purpose of this phase was to generate responses to the survey items used to test the major hypotheses in this study. In the survey, respondents were asked to describe the relationships they have with an organization in which they have a stake using relationship importance as the primary determinant. The intent was to obtain a representative sample of various importance levels.. For example, a stakeholder may have been asked to describe the relationship they have with an organization that they have a good relationship with and with whom it is important to have a relationship or an organization that they do not have a good relationship with and with whom it is not very important to have a relationship.

Standardized, open-ended interviews were used. With this type of approach, each person was asked to provide his or her own answers to the question (Babbie, 1992: 147) which were written in advance in exactly the way they were asked during the interview. Standardized, open-ended interviews are systematic and help ensure that the interviewer's and interviewee's time is used efficiently. Using standardized questions also made data analysis easier and added credibility to the responses because questions were evaluated prior to the actual interviews. However, to allow for individual circumstances that may not be addressed by standardized questions, respondents were also given the opportunity to raise additional issues that they considered to be important in relationships with their stakeholders. Most of the questions were experience/behavior type questions (Patton 1990). These questions were designed to explore the relationships the members of the top management groups have with their stakeholders and to generate items for the survey instrument.

The purpose of the survey was to determine what is important in the relationship from the stakeholder's perspective, and to determine their variability across situations. Four versions of the survey were developed. A packet of fifteen versions of each survey was sent to each member of the top management group that had agreed to participate in the study. One version of the study was then randomly distributed to members of the key stakeholder groups identified in this study. Stakeholders were surveyed about their perceptions of the relationships they have with an

organization in which they have a stake, not necessarily the same organization in which the member of the top management group and the respondent held a stake. This was performed to reduce the threat of demand characteristics in completing the survey that would affect the validity of the results. The survey contained items measuring each of the constructs (situational variables and inherent risk variables).

Attached to each survey was a cover letter that addressed the primary objectives of the research. In addition to explaining the purpose of the survey, the letter emphasized how important the respondent's response was to be to the study. Respondents were told that their responses would remain confidential. Respondents were given a postage paid envelope to return to the researcher to insure that the study would not cost the respondent anything but their time, and to expedite a speedy return of the completed survey.

The third phase involved analyzing the results of the surveys using statistical methods to test the significance of each of the proposed determinants of stakeholder relationship importance. This paper reports the results generated by the survey.

FINDINGS AND FUTURE DIRECTIONS

As noted above, prior to sending out the mail survey personal in-depth interviews were conducted with key members of top management groups (Vice-President and higher). The objective of these interviews was to make sure as many relevant variables as possible were included in the mail survey and also to test the reliability and appropriateness of the survey instrument. Respondents were asked a set of similar questions. Three sets of interviews were conducted face-to-face in a conference room at the author's place of employment. Interviewees represented different types and sizes of organizations. Despite the differences in type and size of organizations, many common themes emerged.

The personal interviews suggested that quality of the offering and service were essential for stakeholders making decisions about whether to continue a relationship. Trust between the organization and the stakeholder was also deemed important for these types of decisions. The members of the top management groups felt that stakeholders want to establish long term relationships with organizations to minimize the amount of time they spend negotiating. However, long-term relationships do not mean that the organization can become complacent. The members of the top management groups that were interviewed seemed to feel that the consumer/client groups strive to obtain the best offerings at the best prices with the best advice that the organizations in which they held a stake can provide. The members of the top management groups also felt that the employee group wanted to be treated fairly and equitably. Lastly, the members of the top management group felt that the supplier distributor group expected honesty and fairness in their negotiations. This implies that organizations need to maintain high levels of trust and honesty even if they have long-term relationships with their stakeholders.

Nineteen packets containing fifteen copies of each of the four versions of the survey were distributed to members of the top management teams who had participated in the interview portion of the study. The version a potential respondent received was randomly determined. A respondent only received one version of the survey. The four versions of the survey were A) good relationship, relationship important, B) good relationship, relationship not important, C) poor relationship, relationship important and D) poor relationship and relationship not important. Each survey was accompanied by a cover letter signed by the author that explained the purpose of the research and how the surveys were to be distributed.

A total sample of 496 surveys was received, representing a 44% overall response rate. The highest response rate for the separate versions was for Version B (52%) that asked respondents to describe a relationship that was good but with whom it was not important to have a relationship. The lowest response rate was for Version C (36%) which asked respondents to describe a relationship that was poor but with whom it was important to maintain a relationship. Interestingly, the response rate for Version D is only 10% higher than the response rate for Version C. The surveys were returned anonymously and therefore it is hard to determine whether there is a difference between these who responded and those who did not.

We found that the relationship with a stakeholder that requires service with the offering is important. Hence, providing good service should increase the likelihood that an exchange relationship will continue in the future. Another important area of consideration for managers is the availability of alternatives. Customers/clients who believed they had more options available to them rated their relationships as less important. Managers need to monitor their competition in order to keep customers and remain competitive. If organizations can develop trust and keep their stakeholders satisfied, they will be less likely to search for other alternatives. Surprisingly, risk and termination costs were not deemed influential in determining relationship importance. When stakeholders invest a large amount of their or their company's resources (i.e., financial risk is high) one would expect that the relationship would be more important.

This study focused on the issues related to only four stakeholder groups' relationships. It may seem that many of the issues addressed in this study are based on the common knowledge that organizations need to have good relationships with their salient stakeholder groups. However, few studies have attempted to examine not only what determines the importance of organization-stakeholder relationships, but also when they should be important. This study addresses those questions.

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