

# Stakeholder and issues management approaches management essay



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The stakeholder management approach is a response to the growth and complexity of contemporary organizations and the need to understand how they operate with their stakeholders and stockholders. Underlying the stakeholder management approach is the ethical imperative that mandates businesses in their fiduciary relationships to their stockholders and shareholders to: 1) act in the best interests of and for the benefit of their customers, employees, suppliers, and stockholders; and 2) respect and fulfill these stakeholders' rights.

The ethical dimension of this approach is based on the view that profit maximization is constrained by justice, that regard for individual rights should be extended to all constituencies of business that have a stake in the affairs of business, and that organizations do act in socially responsible ways not only because it is "the right thing to do," but also to ensure their legitimacy.

#### A. The Outsourcing Debate

1. Competing stakeholder claims become heated when executives must choose

between profit and the welfare of some or all stakeholders.

2. Conflicting studies report that, on one hand, every dollar of corporate spending

shifted offshore generates \$1.13 in new wealth for America's economy and, on

the other hand, U. S. workers may lose \$120 billion in wages to outsourcing by

2015. Arguments against outsourcing of jobs and work include:

Jobs are not presently being created in the private sector, which has not happened before in U. S. history.

The U. S. trade deficit continues to escalate, with no trade surplus in the United States for more than 20 years.

At least three million jobs have been lost over the last three years, with no end in sight. The job loss is not only at lower levels, but also at middle and administrative levels.

Local communities and states depend on individual and corporate taxes to survive. Massive outsourcing threatens the American middle class as well as local communities.

3. In a pluralistic society, corporate leaders need a method that helps them understand and “ keep score” on each of their stakeholders’ strategies, ethics, and power relationships.

## 2. 2 Stakeholder Management Approach Defined

The stakeholder approach argues that ethical principles can result in significant competitive advantage, and provides a framework that enables

users to map and, ideally, manage corporation relationships (present and potential) with groups to reach “ win-win” collaborative outcomes.

A stakeholder approach does not have to result from a crisis or controversial situation nor is it limited in its use to large enterprises. It can also be used as a planning method to anticipate and facilitate business decisions, events, and policy outcomes.

## A. Stakeholders

1. A stakeholder is any individual or group who can affect or is affected by the

actions, decisions, policies, practices, or goals of the organization.

The focal stakeholder is the company or group that is the center or focus of an analysis.

Primary stakeholders include owners, customers, employees, suppliers, stockholders and the board of directors.

Secondary stakeholders include all other interested groups, such as the media, consumers, lobbyists, courts, governments, competitors, the public, and society.

## B. Stakes

1. A stake is any interest, share, or claim that a group or individual has in the outcome of a corporation’s policies, procedures, or actions toward others.

## 2. 3 How to Execute a Stakeholder Analysis

The stakeholder analysis is a pragmatic way of identifying and understanding multiple (often competing) claims of many constituencies.

### A. Taking a Third-Party Objective Observer Perspective

1. Taking a third-party objective observer perspective while doing the stakeholder

analysis in the following section helps students see all sides of an issue and then

objectively evaluate the claims, actions, and outcomes of all parties.

### B. Role of the CEO in Stakeholder Analysis

1. The stakeholder analysis is a series of seven steps aimed at the following tasks

(Frederick et al, 1988):

#### Step 1: Map Stakeholder Relationships

Figure 2. 2 shows a general picture of an initial stakeholder map. The following five questions, in particular, offer a quick “ jump start” on the analysis:

Who are our stakeholders currently?

Who are our potential stakeholders?

How does each stakeholder affect us?

How do we affect each stakeholder?

For each division and business, who are the stakeholders?

Step 2: Map Stakeholder Coalitions.

Determine and map any coalitions that have formed. Coalitions among and between stakeholders form around issues and stakes that they have or seek to have in common.

Step 3: Assess the Nature of Each Stakeholder's Interest

Along with Step 4, this step helps in assessing the nature of each stakeholder's power by identifying the interests of various stakeholders as supportive, nonsupportive, mixed blessing, or marginal.

Step 4: Assess the Nature of Each Stakeholder's Power.

This part of the analysis asks, "What's in it for each stakeholder? and Who stands to win, lose, or draw over certain stakes?"

Three types of especially useful stakeholders are those with voting power, political power, and economic power (Freeman, 1984).

Step 5: Identify Stakeholder Ethics and Moral Responsibilities

Determine the ethics, responsibilities, and moral obligations your company has to each stakeholder.

Figure 2. 3 shows a matrix of stakeholder responsibilities.

This part of the analysis should continue until you have completed matching the economic, legal, ethical, and voluntary responsibilities for each stakeholder, so that you can develop strategies toward each stakeholder you have identified.

#### Step 6: Develop Specific Strategies and Tactics.

First, consider whether to approach each stakeholder directly or indirectly. Second, decide whether to do nothing, monitor, or take an offensive or defensive position with certain stakeholders. Third, determine whether to accommodate, negotiate, manipulate, resist, avoid, or “ wait and see” with specific stakeholders. Finally, decide what combination of strategies you want to employ.

Figure 2. 4 provides a useful typology for both identifying and deciding strategies to employ in a complex situation, based on potential for threat and potential for cooperation.

Figure 2. 5 presents an illustration of the typology in Figure 2. 7, using the Microsoft case as an example.

While developing specific strategies, it is important to keep the following points in mind if you are the focal stakeholder:

Your goal is to create a win-win set of outcomes, if possible.

Keep your mission and responsibilities in mind as you move forward.

Consider what the probably consequences of your actions will be.

Keep in mind that the means you use are important as the ends you seek.

### Step 7: Monitor Shifting Coalitions

Because time and events can change the stakes and stakeholders, it is important to monitor the evolution of the issues and actions of the stakeholders, using Figure 2. 4.

### C. Summary of Stakeholder Analysis

1. The stakeholder approach should involve other decision makers inside and outside the focal organization.

2. The stakeholder analysis provides a rational systematic basis for understanding

issues involved in complex relationships between an organization and its constituencies.

3. The extent to which the resultant strategies and outcomes are moral and are

effective for a firm and its stakeholders depends on many factors, including the

values of the firm's leaders, the stakeholders' power, the legitimacy of the

actions, the use of available resources, and the exigencies of the changing



environment.

## 2. 4 Negotiation Methods: Resolving Stakeholder Disputes

Disputes are part of stakeholder relationships. They occur between different stakeholder levels: e. g. between professionals within an organization; consumers and companies; business to business (B2B); governments and businesses; and among coalitions and businesses.

### A. Stakeholder Dispute Resolution Methods

1. Dispute resolution is an expertise known as “ alternative dispute resolution”

(ADR). Its techniques cover a variety of methods intended to help litigants resolve conflicts (see Figure 2. 6).

2. Integrative approaches are characterized as follows:

Problems are seen as having more potential solutions than are immediately obvious.

Resources are seen as expandable; the goal is to “ expand the pie” before dividing it.

Parties attempting to create more potential solutions and processes are thus said to be “ value creating.”

Parties attempting to accommodate as many interests of each of the parties as possible.

The so-called “ win-win” or “ all gain” approach.

3. Distributive approaches have the following characteristics:

Problems are seen as “ zero sum.”

Resources are imagined as fixed: “ divide the pie.”

“ Value claiming.”

Haggling or “ splitting the difference.”

4. Relational approaches consider power, interests, rights, and ethics, and are

based on:

“ Relationship building.”

“ Narrative,” “ deliberative,” and other “ dialogical” (i. e. dialogue-based) approaches to negotiation and mediation.

Restorative justice and reconciliation (i. e., approaches that respect the dignity of every person, build understanding, and provide opportunities for victims to obtain restoration and for offenders to take responsibility for their actions).

Other “ transformative” approaches to peacebuilding.

5. Four principles of negotiation used in almost any type of dispute include:

Separate the people from the problem.

Focus on the interests rather than positions.

Generate a variety of options before settling on an agreement.

Insist that the agreement be based on objective criteria.

## 2. 5 Stakeholder Approach and Ethical Reasoning

The stakeholder analysis requires the focal or principal stakeholders to define and fulfill their ethical obligations to the affected constituencies. Chapter 3 explains major ethical principles that can be used to examine individual motivation for resolving an ethical dilemma, including rights, justice, utilitarianism, relativism, and universalism.

## 2. 6 Moral Responsibilities of Cross-Functional Area Professionals

One goal of a stakeholder analysis is to encourage and prepare organizational managers to articulate their own moral responsibility, as well as the responsibilities of their company and their profession, toward their different constituencies.

With the Internet, the transparency of all organizational actors and internal stakeholders increases the risk and stakes of unethical practices. Figure 2. 7 illustrates a manager's stakeholders.

### A. Marketing and Sales Professionals and Managers as Stakeholders

1. Sales professionals and managers are continuously engaged-electronically and/or face-to-face-with customers, suppliers, and vendors.

2. Moral dilemmas can arise for marketing managers who may be asked to promote unsafe products or implement advertising campaigns that are untrue or not in the consumer's best interests.

3. The stakeholder analysis helps marketing managers in morally questionable situations in terms of identifying stakeholders and understanding the effects and consequences of profits and services on them.

#### B. R&D Engineering Professionals and Managers as Stakeholders

1. R&D managers and engineers are responsible for the safety and reliability of product design. R&D managers must work and communicate effectively and conscientiously with professionals in manufacturing, marketing, and information systems; senior managers; contractors; and government representatives, to name a few stakeholders.

2. Moral dilemmas can arise for R&D engineers whose technical judgment and

risk assessments conflict with administrative managers seeking profit and time-

to-market deadlines.

### C. Public Relations Managers as Stakeholders

1. Public relations (PR) managers must constantly interact with outside groups and

corporate executives, especially in an age when communications media, external relations, and public scrutiny play such vital roles.

2. PR managers are responsible for transmitting, receiving, and interpreting information on employees, products, services, and the company.

3. Moral dilemmas can arise when PR managers must defend or protect company

actions that have possible or known harmful effects on the public or stakeholders.

### D. Human Resource Managers as Stakeholders

1. Human resource managers (HRMs) are on the front line of helping other managers recruit, hire, fire, promote, evaluate, reward, discipline, transfer, and

counsel employees. HRM professionals' stakeholders include but are not limited to employees, other managers and bosses, unions, community groups, government employees, lobbyists, and competitors.

2. Human resource managers face constant ethical pressures and uncertainties over

issues about invasion of privacy and violations of employees' rights.

3. Moral dilemmas can arise when affirmative action policies are threatened in

favor of corporate decisions to hide biases or protect profits. HRM

professionals also straddle the often-fine line between the individual rights of employees and corporate self-interests.

#### E. Summary of Managerial Moral Responsibilities

1. Expert and functional area managers are confronted with balancing operational

profit goals with corporate moral obligations toward stakeholders. Using a

stakeholder analysis helps clarify the issues involved in resolving ethical

dilemmas.

## 2. 7 Issues Management, Stakeholder Approach, and Ethics: Integrating Frameworks

Issues management methods complement the stakeholder management approach. Issues management is also a formal process used to anticipate and take appropriate action to respond to emerging trends, concerns, or issues that can affect an organization and its stakeholders.

### A. What is a Public Issue?

Many national and international business-related controversies develop around the exposure of a single issue that evolves into more serious and costly issues. Stakeholder and issues management frameworks can be used to understand the evolution of these issues in order to responsibly manage or change their effects.

### B. Other Public Issues

There are other types of public issues from the external environment that involve different companies and industries. For example the issue of obesity has become prominent.

Another issue that affects numerous stakeholders is drivers who drink.

### C. Stakeholder and Issues Management: “ Connecting the Dots”

1. Issues and stakeholder management are used interchangeably by scholars and

corporate practitioners. The process begins by analyzing and then framing

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which issues are the most urgent and have (or may have) the greatest impact on

the organization.

2. Stakeholder analysis questions help “ connect the dots” in understanding and

closing the gaps of issues management.

#### D. Moral Dimensions of Stakeholder and Issues Management

1. Ethical reasoning and behavior are an important part of managing stakeholders

and issues because ethics is the energy that motivates people to respond to issues. When ethical motives are absent from leaders’ and professionals’ thinking and feeling, activities occur that cost all stakeholders.

#### E. Introduction to Three Issue Management Frameworks

1. This section presents three general issues frameworks for mapping and managing issues before and after they become crises, all of which can be used

with the stakeholder management approach.

#### F. First Approach: 6-Step Issue Management Process



1. The process involves the following steps, illustrated in Figure 2. 8:

Environmental scanning and issues identification.

Issues analysis.

Issues ranking and prioritizing.

Issues resolution strategizing.

Issues response and implementation.

Issues evaluation and monitoring.

2. These steps are part of a firm's corporate planning process. This framework is a

basic approach for proactively mapping, strategizing, and responding to issues

that affect an organization.

G. Second Approach: 7-Phase Issue Development Process (Figure 2. 9)

1. Issues are believed to follow a developmental life cycle. Views differ on the

stages and time involved in the life cycle.

A felt need arises.

Media coverage is developed.

Interest group development gains momentum and grows.

Policies are adopted by leading political jurisdictions.

The federal government gives attention to the issue.

Issues and policies evolve into legislation and regulation.

Issues and policies enter litigation.

#### H. 4-Stage Issue Life Cycle

1. Thomas Marx observed that issues evolve from social expectations to social

control through the following steps:

Social expectations.

Political issues.

Legislation.

Social control.

#### 2. 8 Managing Crises

Crisis management methods evolved from the study of how corporations and leaders responded (and should have responded) to crises.

Crises, from a corporation's point of view, can deteriorate if the situation escalates in intensity, comes under close governmental scrutiny, interferes

with normal operations, jeopardizes the positive image of the company or its officers, and damages a firm's bottom line.

#### A. First Approach: Precrisis through Resolution (figure 2. 11)

1. According to this model, a crisis consists of four stages:

Prodromal (precrisis) – warning symptoms.

Acute – damage done, point of no return.

Chronic – recover, self-analysis, self-doubt, healing.

Resolution – return to normalcy, the goal of crisis management.

#### B. How Executives Have Responded to Crises

1. Matthews, Goodpaster, and Nash have suggested five phases of corporate social

response to crises related to product crisis management, based on their study of

how corporations have responded to serious crises. The phases, illustrated in

Figure 2. 12, are:

Reaction – lack of complete information, lack of time to analyze the event thoroughly.

Defense – overwhelmed by public attention, recoiling under media pressure.

Insight – stakes are substantial, executives realize and confirm whether company is at fault.

Accommodation – address public pressure and anxiety.

Agency – understand causes of safety issue and develop education program for the public.

### C. Crisis Management Recommendations

1. Corporations can respond more effectively to crises by:

Facing the problem and telling the truth.

Taking their lumps in one big news story.

Recognizing there is no such thing as a secret or private crisis.

Staging war games.

Using their motto, philosophy, or mission statement to respond to a crisis.

Using their closeness to customers and end users for early feedback.

2. The following tactical recommendations are helpful crisis prevention and management techniques:

Understand your entire business and dependencies.

Carry out a business impact assessment.

Complete a 360-degree risk assessment.

Develop a feasible, relevant, and attractive response.

Plan exercising, maintenance, and auditing.

3. Issues and crisis management methods and preventive techniques are effective

in corporations only if:

Top management is supportive and participates.

Involvement is cross departmental.

The issues management unit fits with the firm's culture.

Output, instead of process, is the focus.

## **Ethical Insight 2. 1: Consultants Split On Bridgestone's Crisis Management**

This case study examines how certain crisis management experts viewed the handling of the Bridgestone/Firestone scenario. The experts express their ideas and opinions on the case.

questions

What, if anything should Mattel's CEO have done differently in this scenario/case to have prevented and/or avoided the resulting crisis? Explain.

Answer: Students' opinions will vary. There were a number of factors at play, many of which were internal to Mattel, but others that were not. The answer should involve a discussion of the stakeholder framework. The stakeholder

analysis provides a rational, systematic basis for understanding issues involved in complex relationships between an organization and its constituents. It helps decision makers structure strategic planning sessions and decide how to meet the moral obligations of all stakeholders. The extent to which the resultant strategies and outcomes are moral and are effective for a firm and its stakeholders depends on many factors, including the values of the firm's leaders, the stakeholders' power, the legitimacy of the actions, the use of available resources, and the exigencies of the changing environment.

Briefly describe a situation in which you were a major stakeholder. How was the situation resolved (or not resolved)? What methods were used to resolve the situation? Looking back now, what methods could or should have been used to resolve that situation? For example, what would you now recommend happen to effectively resolve it fairly?

Answer: Students' responses will vary according to their own experiences.

Which of the types of power (described in this chapter) that stakeholders can use have you effectively used in a conflict or disagreement over a complex issue? Briefly explain the outcome and evaluate your use(s) of power.

Answer: The students' answer will vary. The answer should involve a description of power from the chapter. Three types of power stakeholders can use are (1) voting power, (2) political power, and (3) economic power. For example, owners and stockholders can vote their choices to affect the firm's decisions. Federal, state, and local governments can exercise their

political power by increasing regulations. Consumers can exercise their economic power by boycotting a firm's products.

Which roles and responsibilities in this chapter have you assumed in an organization? What pressures did you experience in that role that presented ethical dilemmas or issues for you? Explain.

Answer: Students' responses will vary according to their own experiences.

What are the reasons for encouraging managers to use the stakeholder approach? Would these reasons apply to teams?

Answer: Why should individual expert and functional area managers use the stakeholder analysis? First, by thinking in terms of stakeholders, managers can acknowledge and begin to change their perceptual biases, blind spots, and harmful activities that affect the firm's and their unit's operations. The analysis allows them to see and perform their roles and moral responsibilities toward external and internal groups. Second, by seeing how managers in a firm handle their complex stakeholder relationships, individual managers can begin to create value and realize corporate moral and legal obligations toward stakeholders. Third, the basis for increasing the quality of cross-functional communication and integration can be developed. The process and results of the stakeholder analysis can provide a platform for opening corporate communication channels to discuss stressful, unrealistic, or immoral expectations, problems, and pressures that often lead to illegal and unethical activities, such as creating faulty products, price-fixing, cheating, and lying. Finally, by identifying specific stakeholders' responsibilities, expert area managers can begin to see common patterns of pressures, resources, <https://assignbuster.com/stakeholder-and-issues-management-approaches-management-essay/>

and ethical issues across the firm. An enterprise's moral identity and mission can be identified or reinforced. Moreover, managers can begin to think ahead and operate with moral responsibility as they perform their work. These underlying concepts can apply to any group, team, or area managers for doing stakeholder analysis.

Give a recent example of a corporation that had to publicly manage a crisis. Did the company spokesperson respond effectively to stakeholders regarding the crisis? What should the company have done differently in its handling of the crisis?

Answer: Students' responses will vary according to their own awareness of recent corporate public confidence issues. Some suggested examples include:

Texaco<sup>3/4</sup>racial discrimination

Mitsubishi<sup>3/4</sup>sexual harassment

Archer-Daniels-Midland Company<sup>3/4</sup>price fixing

Reynolds Tobacco<sup>3/4</sup>controversy regarding health problems of smoking

Enron, WorldCom<sup>3/4</sup>accounting fraud

Arthur Anderson<sup>3/4</sup>ineffective auditing procedures

Political Parties<sup>3/4</sup>campaign financing/fundraising



Describe how you would feel and what actions you would take if you worked in a company and saw a potential crisis emerging at the “ prodromal” or precrisis stage. What would you say, to whom, and why?

Answer: Students’ responses will vary according to their own experiences.

Using Figure 2. 4, identify a complex issue-related controversy or situation in which you, as a stakeholder, were persuaded to move from one position (cell) to another and why – e. g., from nonsupportive to supportive, or from mixed blessing to marginal. Explain why you moved and what the outcome was.

Answer: Students’ responses will vary according to their own experiences.

Argue both the pros and cons of stakeholder theory, using some of the arguments in the chapter, as well as your own. What is your evaluation of the usefulness of stakeholder theory and methods in understanding and analyzing complex issues?

Answer: Students’ responses will vary according to their own experiences.

They should include in their answer pros and cons from the chapter. Cons:

(1) negates and weakens fiduciary duties managers owe to stockholders; (2) weakens the influence and power of stakeholder groups; (3) weakens the firm; and (4) changes the long-term character of the capitalist system. Pros:

(1) The approach provides an analytical method for determining how various constituencies affect and are affected by business activities. (2) It also provides a means for assessing the power, legitimacy, and moral

responsibility of managers' strategies in terms of how they meet the needs and obligations of stakeholders.

exercises

**(Responses to the following exercises will vary with students' experiences and views. However, sample responses are provided as suggestions where possible.)**

Describe a situation in which you were a stakeholder. What was the issue?

What were your stakes? Who were the other stakeholders? What was the outcome? Did you have a win-win resolution? If not, who won, who lost, and why?

Answer: A local department store had a policy that merchandise must be returned within 30 days of purchase for a cash refund. As a customer of this department store, I had purchased an item as a gift for a friend's wedding. The wedding was canceled, and I went to the store to return the item I had purchased. I had my receipt and the item had not been opened. The date on the receipt showed I had purchased the item 34 days earlier. The clerk at the returns desk refused to accept the return due to the fact that the purchase was made more than 30 days ago. Given the reason for the purchase and return, I felt that this was unreasonable and requested to speak to the manager. After careful consideration and much argument, the manager agreed to accept the return, but only as an in-store exchange credit. Due to the hassles involved, both parties came away as losers. As a customer, I was not totally satisfied and will most likely take my business to another store

with a more liberal and personalized refund policy. The manager lost due to having to argue with me and this resulted in the loss of my business.

Recall your personal work history. Who were your manager's most important stakeholders? What, in general, were your manager's major stakes in his or her particular position?

Answer: In almost every business circumstance, the manager's most important stakeholder has been the customer. The line most often heard was "The customer is always right." It makes sense for the customer to be the most important stakeholder, because without the customer no other stakeholders would exist. If the customers are not satisfied, then they conduct their business elsewhere and the company ceases to exist.

In your company or one in which you have worked, what is the industry? The major external environments? Your product or service? Describe the major influences of each environment on your company (for example, on its competitiveness and ability to survive). Evaluate how well your company is managing its environments strategically, operationally, and technologically, as well as in relation to new products and public reputation.

Answer: ABC Consulting and Accounting, Inc. The industry of business consulting and accounting. The environments that most often accompany the consulting and accounting firms are economic, legal, and government/regulatory.

The service provided by ABC consists of all accounting functions<sup>3</sup>/<sub>4</sub>bookkeeping, financial statement<sup>3</sup>/<sub>4</sub>preparation, tax preparation,

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auditing, etc. The consulting services provided consist of reorganization, cost analysis, tax planning, capital investment planning, budgeting, etc. Potential stakeholders are government regulatory agencies-FASB, GAAP-as well as the stockholders of the business customers, their customers, their employees, etc. Each stakeholder affects ABC by either limiting what can be done in regards to reorganizing or analyzing the strengths and weaknesses of the firms that are our customers, or by the way that the accounting records are kept and reported. We affect our stakeholders by providing the service that they requested to the best of our ability.

Choose one type of functional area manager described in the chapter.

Describe a dilemma involving this manager, taken from a recent media report. Discuss how a stakeholder analysis could have helped or would help that manager work effectively with stakeholders.

Answer: Regarding th